

FINANCIAL TIMES

World Business Newspaper <http://www.FT.com>

THURSDAY MARCH 26 1998

Corporate substance
Now business mimics
the grin without the cat
Peter Martin, Page 10

Sweden's military
Is armed neutrality
still necessary?
Page 3

France
Right crumbles
under Le Pen pressure
Page 2

Today's surveys
Japan's Financial Revolution
Middle East Privatisation
Separate sections

Mastering Global Business
Around the world in 10 weeks
PART 9: the series
continues tomorrow in a
separate tabloid section



WORLD NEWS
US rethinks policy
of taking sanctions
against countries
trading with Iran

Washington is rethinking its attitude to sanctions against European and Asian companies that invest in Iran's energy sector, said Jim Steinberg, deputy national security adviser. The statement confirmed a new caution in US deliberations on whether to penalise Iran's partners and incur the risk of a transatlantic trade war. Page 12

Iceland wants Canada in EEA
Iceland said it had begun talks with Canada aimed at admitting it to the European Free Trade Association. It is one of the first attempts to include a North American government in a pan-European trading group. Page 3

Italy's employers fight short week

Confindustria, the Italian employers' federation, is to decide tomorrow whether to withdraw from a landmark

agreement on incomes policy in response to the government's decision to move towards a 35-hour working week. Page 3

N Ireland talks get deadline

Former US senator George Mitchell, chairman of the Northern Ireland talks, set the firm explicit target date, April 9, to bring the peace process to "a swift and favourable conclusion". Page 7

Clinton voices sorrow in Rwanda

Touring US president Bill Clinton met mainly survivors of Rwanda's 1994 genocide and acknowledged the world had not done enough to stop it. Page 6; Lex, Page 12

Liberal hold Nova Scotia

Canada's Liberal party appeared to have survived the Nova Scotia election, retaining the right to govern the Atlantic province with only 18 seats in the 52-seat legislature - tied with the New Democratic party. Page 5

United pressure on Milosevic

Russia joined western countries in insisting that Yugoslav president Slobodan Milosevic make an urgent start to autonomy talks with the Albanians of Kosovo. Page 3

US envoy weighs Middle East push

US envoy Dennis Ross is to arrive in the Middle East today to assess whether the time is right for the US to put forward proposals to kick-start Israeli-Palestinian talks. Page 5

Hong Kong fights another flu

Hong Kong faced another health scare as a lethal "Sydney flu" strain of influenza was suspected of killing two men in their 60s and leaving a child critically ill. Page 4

Sale expected in Indonesia talks

Bankers said talks today on renegotiating more than \$80bn of Indonesian private offshore debt were expected to narrow down to two proposals that might end months of deadlock. Page 4

Argentina moves to end amnesty

Argentina's lower house of Congress voted to repeal laws granting amnesty to perpetrators of human rights abuses during the military dictatorship of 1976-83. Page 4

TV ads aimed at soccer thugs

The UK government launched a TV campaign aimed at keeping soccer hooligans away from the World Cup competition in France. Page 7

BUSINESS NEWS

SocGen to set up
film finance unit
in London for
European films

Société Générale, the French banking group, today launches a London-based film financing division to take advantage of the revival of the European film industry. Page 13; Link-up with Russell, Page 15

Recent rises in US stocks have sparked fresh debate about share price valuations, and whether the US market is trading at dangerously high levels. Page 13; Lex, Page 12; Tech sector leads rise, Page 34

SAP shares fell after the German software group repeated its warning that growth would slow and outlined a "virtual stock" plan to help it retain employees. Stocks close DM4 lower at DM791 (\$492.24). Page 16

The EU has appealed against a WTO judgment that Britain and Ireland breached rules by reclassifying computer equipment to higher-tariff categories. The complaint was brought by the US. Page 6

News Corporation, the media group, has been excluded from the Australian market for terrestrial digital television broadcasting for at least another decade. Page 4

Norsk Skog, one of Europe's biggest newsprint producers, has signed a letter of intent to acquire a stake in Thailand's only newspaper mill, Shin Ho Paper. Page 18

Banques Populaires, the French co-operative banking group, rescued Paris-based business bank Nateds in a friendly takeover worth FF7bn (\$1.14bn). Page 16

Statensamiska Eskilstuna Banken, the Swedish bank, has bought a stake in Sampo, Finland's largest insurer, from Swedish-Finnish bank Merita-Nordbanken. Page 18

EasyJet, the low-cost UK airline, will announce today that it has bought a 40 per cent stake in TEA Switzerland, a Swiss charter carrier with four leased Boeings. Page 21

Telefonica, the Spanish telecoms group, plans to raise Pts800bn (\$3.87bn) in new capital, signaling an aggressive phase of acquisition activity in Latin America. Page 13

Singapore launched the biggest convertible bond out of Asia with a \$1bn issue exchangeable into shares of Singapore Telecom. Page 13; Bonds, Page 22

Leading aluminium companies are to make a second attempt to acquire Venezuela's troubled aluminium complex, one of the world's largest, under new conditions. Page 20

Argentaria, the privatised Spanish banking group, plans to merge its main units to realise latent capital gains and reduce costs. Page 15

INA, Italy's second largest insurance group, is looking for a partner to help develop a new residential and commercial property company. Page 15

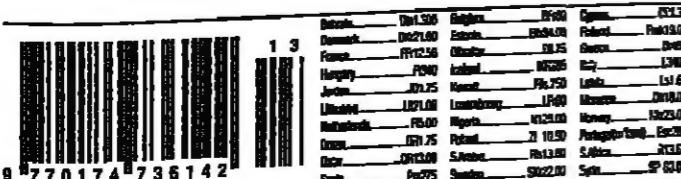
World Equity Markets

The latest trends and data from more than 50 national markets at a glance. Page 33

WORLD MARKETS

STOCK MARKET INDICES		GOLD	
New York	Industrial	\$396.2	(+37.88)
MSA	Composite	1,035.08	(+23.54)
Europe and Far East			
CAC40		3,618.71	(+80.17)
DAX		5,050.00	(+128.00)
FTSE 100		4,977.8	(-15.59)
Nikkei		16,055.34	(+91.95)
US LARGEST FIRMS		5.88	
Federal Funds		5.07	
3-month T-bill rate		5.07	
Yield		5.02%	
OTHER RATES			
US 5-year T-bond		7.75%	
US 10-year T-bond		10.02%	
France 10-yr OAT		10.65	
Germany 10-yr Bund		10.31	
Japan 10-yr JGB		10.15	
NORTH SEA OIL (Argus)		51.34	
Brent Crude		51.34	(14.075)

© THE FINANCIAL TIMES LIMITED 1998 No.33,553
London • Leeds • Paris • Frankfurt • Stockholm • Milan • Madrid • New York
Los Angeles • Tokyo • Hong Kong



Russia plans to dismiss 200,000 state employees

Minister insists IMF-supported \$6.7bn austerity programme will go forward

By Chryssie Freeland in Moscow

The Russian government plans to sack more than 200,000 state employees and slash Rbs40bn (\$6.7bn) from its spending commitments as part of a radical austerity programme aimed at bolstering the country's shaky public finances, a minister said yesterday.

The move comes in the wake of Russian president Boris Yeltsin's dismissal of the entire government this week. But Alexei Kudrin, deputy minister of finance, insisted political uncertainty would not slow the cost-cutting drive.

Mr Kudrin, one of the main authors of the austerity programme, said the drastic job cuts, including 68,000 teachers and 22,000 medical staff, were part of a sweeping plan to sack 10-15 per cent of the federal government's employees.

Mr Yeltsin has asked his officials to propose a new government next week, but the finance ministry is expected to remain largely intact.

The restructuring drive is likely to have an immediate effect on millions of Russians as the federal government pushes ahead with the dismissals over the next three or four months. The redundancies are part of a programme agreed with the International Monetary Fund, known as the Kudrin-Fischer plan, to reduce government expenditure.

Mr Kudrin told the Financial Times that the finance ministry had already targeted 200,000 jobs, ranging from bureaucrats to doctors.

He expected the overall number of redundancies this year to be even higher. So far only half of Russia's vast state machinery has fallen under the finance ministry's

scrutiny.

Over the next month equally deep job cuts would be made in the remaining areas.

Mr Kudrin indicated that the mass job cuts and sharp reduction in government spending commitments were not at odds with Mr Yeltsin's demand this week that the cabinet focus more on social issues and on improving the lot of the average Russian.

He said the cuts would brighten the national mood by ensuring the government had enough cash to pay the employees who remained on its payroll.

"Everyone else will be paid on time and the social tension will decrease," he said.

The radical redundancy programme would mean a chaotic shift of much of Russia's vast state-supported social welfare net into the private sector.

The government austerity drive comes at a time of continued uncertainty over the fate of Anatoly Chubais, the former first deputy prime minister who was once seen as Russia's foremost reformer but was fired this week.

Mr Kudrin, Chubais's protege, said yesterday afternoon that the government would nominate Mr Chubais to become chairman of the board of Unified Energy Systems, the national power company, a post that would make the ousted minister one of the most influential people in the Russian economy.

But by yesterday evening, Mr Chubais was reported to have lost political momentum. Instead, Boris Breynev, the widely respected former commercial banker who is running UES, said he would stay.

He expected the overall number of redundancies this year to be even higher. So far only half of Russia's vast state machinery has fallen under the finance ministry's

scrutiny.

Mr Kudrin insisted that the cuts would not be as deep as initially planned. The government's budget deficit is expected to be 10 per cent of gross domestic product this year.

Mr Kudrin's comment was seen as a warning to the Germans not to deviate from the finely calibrated judgment that allows Italy and Belgium to qualify for the single currency, the euro, in spite of reservations over their debt levels.

Yves-Thibault de Silguy, EU monetary affairs commissioner, rejected accusations that countries had used accounting gimmicks to manipulate the budget deficit figures to meet the 1997 target of 3 per cent of GDP.

The French and German employers' federations welcomed yesterday's reports. In a joint statement they said that if Spain was to succeed in the long run, members had to reform tax and welfare systems.

If, as expected, EU leaders follow the Commission's recommendation, the single currency zone will contain almost 300m people

and account for 18.4 per cent of world GDP and 18.6 per cent of world trade.

Mr Duisenberg yesterday hinted that a report from the Bundesbank, the German central bank, on Friday, would closely follow the EMI's line, given that the Bundesbank's president Hans Tietmeyer will have signed both documents.

In its report on economic convergence, the European Monetary Institute, the forerunner of the European Central Bank, expressed "ongoing concern" that the two countries had made insufficient progress to reduce their debt ratio of over 120 per cent of gross domestic product to an agreed target of 60 per cent.

Mr Duisenberg, president of the EMI, said the criticism was not at odds with the Commission's recommendation that the two countries qualify for economic and monetary union.

All European Union member states bar the UK, Denmark, Sweden and Greece are expected to join the euro next year.

If, as expected, EU leaders follow the Commission's recommendation, the single currency zone will contain almost 300m people

and account for 18.4 per cent of world GDP and 18.6 per cent of world trade.

They have been shaved to take account of the Asian financial crisis and slower than expected growth in Germany.

But a recovery should lead to the creation of 3.4 million jobs between 1997 and 1997 as the EU economy generates domestic rather than export-led growth, the Commission said.

Jacques Santer, president of the European Commission, urged EU leaders to break the deadlock over who should head the European Central Bank before May 2, when they formally choose the founder members of the euro.

"We must not let the job become hostage to a personal quarrel," he said - a reference to President Chirac's opposition to Mr Duisenberg.

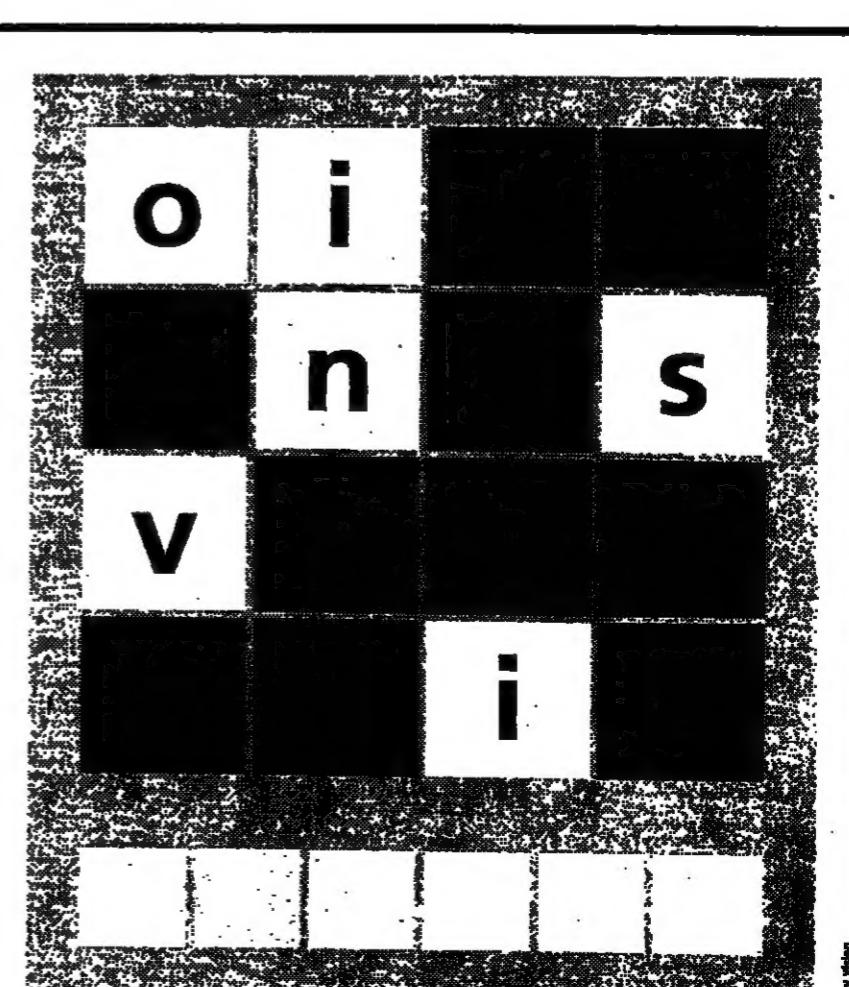
The French and German employers' federations welcomed yesterday's reports. In a joint statement they said that the row might already have damaged the credibility of the ECB.

Keeping up in the Euro race, Page 2

Brussels, Page 11

Lex, Page 12

It's a Cinven challenge



Have you got it?

Cinven Capital organisation

CONTENTS
World News 2-6 UK News 7
Features 8 Comment & Analysis 10,11
Companies & Finance 13-21 World Stock Markets 28-34
Full contents and Lex back page

Cinven Limited is regulated by IMRO

WORLD NEWS

EUROPE

LIFT-OFF FOR THE EURO THE COUNTDOWN STARTS

Keeping up the pace in the Emu race

By Andrew Fisher in Frankfurt

European countries have made strenuous efforts to negotiate the hurdles on the way to monetary union, but will they be able to keep up the pace? That is the question at the heart of the final convergence report of the European Monetary Institute - soon to be upgraded to the European Central Bank - and the answer has yet to become clear.

The Emu clearly has its doubts, though it did not express them so strongly as to exclude the more shaky potential members of European monetary union. In fact, Wim Duisenberg, the Emu's president, said he did not think there were any arguments in its report that went against the European Commission's recommendation that 11 of the 15 EU states should join at the start.

But while the Emu was gratified that "major improvements in terms of convergence" had been recorded since its last such

report in November, 1996, it made it very clear that these must be continued.

In some countries, notably Italy, Belgium and Greece, the pace of fiscal progress needed to be accelerated considerably. All three have debt ratios of more than 100 per cent of gross domestic product against the Maastricht treaty requirement of 60 per cent.

The institute stressed its "ongoing concern" about whether progress towards meeting the Maastricht criteria could be sustained in these countries once Emu was under way next year. But when asked whether this meant that Belgium and Italy had failed to fulfil the criteria - Greece does not mean that.

It said that "within the context of a single monetary policy, the adjustments seen over the recent past need to be carried substantively further".

In most countries, "decisive and sustained corrective policies of a structural nature" were warranted. This was because of high and persistent unemployment (largely structural), the future pensions burden from an ageing population, and high public debt levels which would weigh on some

Europe converges

European Commission forecasts for 1998

Ireland

Real GDP growth (%) 8.7

Deficit/surplus (% of GDP) +1.1

Debt (% of GDP) 58.5

Belgium

Real GDP growth (%) 2.8

Deficit/surplus (% of GDP) -1.7

Debt (% of GDP) 118.1

Luxembourg

Real GDP growth (%) 4.4

Deficit/surplus (% of GDP) +1.0

Debt (% of GDP) 7.1

Portugal

Real GDP growth (%) 4.0

Deficit/surplus (% of GDP) -2.2

Debt (% of GDP) 60.0

Spain

Real GDP growth (%) 3.6

Deficit/surplus (% of GDP) -2.2

Debt (% of GDP) 67.4

France

Real GDP growth (%) 3.0

Deficit/surplus (% of GDP) -2.8

Debt (% of GDP) 58.1

Italy

Real GDP growth (%) 2.4

Deficit/surplus (% of GDP) -2.5

Debt (% of GDP) 118.1

Greece

Real GDP growth (%) 2.8

Deficit/surplus (% of GDP) -2.2

Debt (% of GDP) 107.7

UK	Netherlands	Finland
Real GDP growth (%) 1.9	Real GDP growth (%) 3.7	Real GDP growth (%) 4.6
Deficit/surplus (% of GDP) -0.6	Deficit/surplus (% of GDP) -1.6	Deficit/surplus (% of GDP) +0.3
Debt (% of GDP) 52.3	Debt (% of GDP) 70.0	Debt (% of GDP) 52.6
Ireland	Sweden	Denmark
Real GDP growth (%) 8.7	Real GDP growth (%) 2.8	Real GDP growth (%) 2.7
Deficit/surplus (% of GDP) +1.1	Deficit/surplus (% of GDP) +0.5	Deficit/surplus (% of GDP) +1.1
Debt (% of GDP) 58.5	Debt (% of GDP) 74.1	Debt (% of GDP) 58.5
Belgium	Germany	Austria
Real GDP growth (%) 2.8	Real GDP growth (%) 2.6	Real GDP growth (%) 2.8
Deficit/surplus (% of GDP) -1.7	Deficit/surplus (% of GDP) -2.5	Deficit/surplus (% of GDP) -2.5
Debt (% of GDP) 118.1	Debt (% of GDP) 61.2	Debt (% of GDP) 64.7
Luxembourg	Italy	Greece
Real GDP growth (%) 4.4	Real GDP growth (%) 2.4	Real GDP growth (%) 2.8
Deficit/surplus (% of GDP) +1.0	Deficit/surplus (% of GDP) -2.8	Deficit/surplus (% of GDP) -2.2
Debt (% of GDP) 7.1	Debt (% of GDP) 118.1	Debt (% of GDP) 107.7

budgets until the debts were reduced.

In the case of Belgium, which last year had a debt ratio of 122 per cent - though its deficit ratio was

only 2.1 per cent - the Emu said there was "evident ongoing concern" as to whether this would come down swiftly enough. The term "ongoing concern" was

also used for Italy and Greece.

However, there were also strictures for Germany and France, which both needed to bring down their deficit

ratios further in order to ease the debt burden.

Even those countries in the front of the pack cannot rest on their laurels.

ITALY PUBLIC SPENDING WORRY

Fiscal surpluses needed 'rapidly'

The European Commission praises Italy's "far-reaching" budget consolidation, writes Lionel Barber. The public deficit has fallen from 9.5 per cent of gross domestic product in 1993 to 2.7 per cent in 1997. One-off measures such as last year's party refundable euro-tax helped, but Brussels pays tribute to pension reform and longer-term changes in taxation and the state budget.

The effect is likely to be neutral in 1998 but consequences in the medium-term are "potentially significant". Nevertheless, the single largest contribution to deficit reduction was lower interest rates, says the Commission.

The Emu report expresses concern about the high level of government debt, which is more than twice the Maastricht level of 60 per cent of GDP. It says "significant and persistent" overall fiscal surpluses are "rapidly" needed to be able to reduce forcefully the debt ratio within an appropriate time.

It also highlights a

"marked ageing of the population" which - in the context of an unfunded public pension system - could raise public spending as a proportion of GDP.

The Commission says Italy meets the debt criterion because the downward trend is more important than the actual level of debt. Brussels singles out Italy's strong primary surplus - the budget surplus before debt repayments - which was 6.8 per cent of GDP in 1997 and suggests that debt reduction will "accelerate" in 1998 and in future years.

The sale of state-owned agencies has bolstered receipts and is expected to continue to raise between 0.5 and 0.75 per cent of GDP per year.

The government has also announced its intention to bring down the debt ratio by around 3 percentage points of GDP per year. This would allow Rome to hit the goal of a government debt of 100 per cent of GDP by 2003.

It also highlights a

GERMANY THE UNIFICATION FACTOR

Tax shortfalls and ageing population

Without the financial burden of unification, Germany would have sailed through the Emu convergence criteria with little difficulty, writes Andrew Fisher. As it is, the country meets most of the criteria comfortably.

But in the past seven years, its ratio of government debt to gross domestic product has risen sharply - from 41.5 per cent in 1991, well within the Maastricht limit of 60 per cent, to 61.3 per cent in 1997. This year, it is likely to ease to 61.2 per cent.

"Without inclusion of unification-related liabilities, the German debt ratio would have remained well below the 60 per cent of GDP reference value," says the European Commission.

The deficit ratio, however, is comfortably below the required 3 per cent level.

Last year, it was 2.7 per cent and in 1998 it is expected to ease to 2.5 per cent. But the European Monetary Institute believes this rate of improvement is not enough to curb the debt ratio further. Thus "further substantial progress in consolidation" of the fiscal position is needed to cut the debt ratio to 60 per cent or below in an appropriate period of time.

Such action would have to

compensate for tax shortfalls and meet the terms of the stability and growth pact drawn up for European monetary union.

The Emu is also concerned about the longer term, and includes Germany among countries where it foresees "future budgetary challenges". These relate mainly to the ageing of the population expected from around 2010. Since Germany has an

unfunded, pay-as-you-go state pension system, future old-age spending is projected to place an increasing strain on the economy, especially if benefits are not brought further under control.

The Emu said there would be further retrenchment in pension payments, "which is underlined by the fact that the burden of levies in Germany has reached an unacceptably high level".

FRANCE SCORING WELL

Warning on budget deficit and debt ratio

France is one of three EU countries - apart from Luxembourg and Finland - which fulfil all the entry criteria for the single currency on a strict interpretation, writes Wolfgang Münchau.

However, the European Monetary Institute (Emu) warns that France must consolidate its budget deficit further to maintain its position. "The current fiscal positions, in terms of both overall and primary bal-

ances, would not appear to be sufficient to stabilise the debt ratio at below 60 per cent," the Emu report said.

The debt-to-gross domestic product ratio was 58 per cent in 1997, just below the Maastricht treaty's target of 60 per cent. But the ratio had deteriorated by 2.5 percentage points since 1990, largely because of higher spending on health, pensions and unemployment.

To maintain the current

debt level, France will need to get its budget deficit down from 3 per cent of GDP in 1997 to 2.5 per cent, according to Emu forecasts, but the institution expressed scepticism about whether France was likely to achieve the improvement. "The outlook for 1998 is not further improvement in 1998 in spite of the favourable economic situation," it said.

France also easily fulfilled the conditions of exchange rate stability and long-term interest rates. But the Emu still called on France to strengthen policies to

enhance competition in product markets and to improve the workings of the labour markets.

The European Commission gave a more upbeat assessment of the state of French public finances. It said France's 1998 budget was "a clear indication of the government's commitment to budgetary consolidation" and concluded: "An excessive deficit no longer exists in France."

Right crumbles under threat of Le Pen

Temptations to forge local alliances with the outcast National Front are splitting France's two centre-right parties, writes Robert Graham

the March 15 regional elections, and this party - the pariah of French politics with its poisonous cocktail of racism and xenophobia - is setting the agenda.

"We are the most responsible for this setback," Jean-Louis Déribre, chairman of the RPR parliamentary group, said yesterday. But he was also quick to cast blame elsewhere. "For 15 years the Socialists have been trying to give the wink to the extreme right behind the back of the French."

The RPR and UDF lost last May's general election in good measure because the NF split the right's vote. Since then the RPR and UDF have been unable to rebuild

their morale or establish a convincing programme to challenge the Socialist-led coalition of Lionel Jospin.

It was common knowledge during the regional election campaign that RPR and UDF members were considering opportunistic post-electoral alliances to ensure the left was prevented from extending its previously slim grip on the regions. But the leaders seem to have been taken by surprise when last Friday five regions accepted NF votes to retain office.

The five were all linked to the UDF, founded in 1976 by President Valéry Giscard d'Estaing. The most high-profile dissident was Charles Millon, the new head of the

Rhône-Alpes region and a former defence minister close to President Jacques Chirac. They were immediately suspended from the UDF and on Tuesday were invited to resign their regional presidencies or face expulsion. Additional pressure came from President Chirac who in a nationwide broadcast on Monday branded the National Front as undemocratic.

A portion of the UDF believed the NF contains a more moderate element which can be co-opted and that local alliances do not necessarily imply a national line-up in a general election. They argue that Bruno Megret, the NF number two,

wants to bring his party into the mainstream and is not tarrred with the same overt anti-Semitism and virulent nationalism as the founder-leader Jean-Marie Le Pen.

Ever if the dissidents now

recent and resign, the divisions have been too obvious and the disidence too long not to undermine the credibility of the moderate right. At the same time the flirtation with the NF has

removed a taboo about its political legitimacy and Mr Megret has dangled before the voters a seemingly reasonable six-point programme of regional government.

Until now the strength of the moderate right has been the illegitimacy of the NF and the residual legacy of General de Gaulle's nationalistic populism. They have also been helped by a two-round, first-past-the-post voting system in general elections that has excluded the front (it has one deputy but 15 per cent of the national vote). These strengths have been squandered as the RPR and the UDF have been converted into personal fiefdoms at the expense of a coherent programme of government.

"An era has come to an end," François Bayrou, chairman of the UDF parliamentary group, said as his party gathered to consider

the fate of the five rebels. "We now have to build a new political party of the centre-right."

Talk of bringing the RPR and UDF under one roof has become more urgent, though not necessarily more probable. There are too many egos with personal agendas and too much suspicion attached to the ambiguous role of President Chirac. He founded the RPR as the heir to the Gaullist heritage and is now keen to form a new grouping that would reinforce his ambitions to stay on in the presidency.

However, the head of state cannot easily be the effective head of the opposition without straining the "co-habitation" with the Socialist government. He came close to partisanship this week in a TV address whose prime motive appeared to be a desperate attempt to rescue his friends in the moderate right.

Draft bill to change Bank of France passed

By Robert Graham in Paris

French opponents of closer European integration will have their last chance to voice their concerns over the country's loss of sovereignty under European monetary union when parliament next month considers legislation to alter the Bank of France's statutes in 1998.

However, the bill's 10 articles underline just how much the Bank of France's role will be changed since it acquired independent status in 1993.

The current Article One entrusts the bank with responsibility for monetary policy to ensure price stability "in the context of the government's overall economic policy".

Dutch bank's stern words

NEWS DIGEST

CAPITAL ADEQUACY REQUIREMENTS

Estonia aims to check current account deficit

Estonia's central bank said yesterday it was considering measures aimed at slowing economic growth and checking the spiralling current account deficit, which it said hit 13 per cent of gross domestic product last year.

In 1996, the deficit stood at 9.8 per cent. According to preliminary figures, the economy grew by 9 per cent in 1997. Strong domestic demand and a dynamic domestic financial sector stoked up the current account deficit.

Peter Lohmus, central bank vice-president, said the method of calculating commercial banks' capital adequacy requirements might be changed. This would effectively raise the capital adequacy requirement above the current 10 per cent, and force commercial banks to curtail lending. The central bank previously raised capital adequacy requirements from 8 per cent last October.

In the past year Estonia's commercial banks have had access to foreign credit at favourable international rates. This foreign borrowing has fuelled domestic consumption, contributing to the growing gap in the current account. In a press release, the central bank also suggested the government might take further fiscal measures to slow economic growth. Matjaž Vipotnik, Tallinn

SLOVAK PRESIDENCY

Meciar attacked on powers

The Slovak opposition yesterday began a public campaign against the prime minister's assumption of presidential powers. Vladimír Meciar took on most of these at the start of this month when the president stepped down without a successor in place.

A large rally in Bratislava on the tenth anniversary of a demonstration against the communist regime launched a petition demanding that the president's powers be temporarily vested in parliament. It also called for the president to be directly elected on subsequent occasions, rather than being chosen by parliament.

Parliament has made two attempts to elect a candidate with the required three-fifths majority. On April 16, it will make a third attempt. So far the only candidate is Brigitte Schnegenerova, the deputy leader of the former Communist party of the Democratic Left.

The government, which has enough votes to block a candidate but not to impose one, has yet to put forward a nominee, although Mr Meciar has toyed with the idea of standing himself. Robert Anderson

UKRAINE ELECTIONS

Tatars may get voting rights

In an effort to defuse unrest around parliamentary elections next Sunday, President Leonid Kuchma of Ukraine is likely to grant voting rights to members of an ethnic minority who do not have Ukrainian citizenship, a presidential aide said yesterday.

Mr Kuchma's advisers are drafting a decree that would allow about 20,000 Crimean Tatars to take part in the elections the aide said.

Crimean Tatar demonstrators clashed with police in the semi-autonomous Crimean region on Tuesday after the Ukrainian parliament in Kiev rejected legislation that would have allowed some 100,000 of their number who are not citizens of Ukraine to vote. Tatar leaders said they would urge Mr Kuchma to resolve the issue before the elections for the national parliament, the Crimean parliament and local bodies. Some warned of violence if the problem remained unresolved.

Soviet dictator Josef Stalin exiled the Crimean Tatars en masse to Central Asia in 1944. Since the late 1980s, more than 250,000 members of the Muslim minority have returned to Crimea. They make up about 10 per cent of the Black Sea peninsula's population. AP, Kiev

TURKISH POLLS

Reforms first, says Ecevit

Turkey's deputy prime minister, Bülent Ecevit, said yesterday the government wanted to push through reforms before considering the option of early polls sought by a key opposition leftist. "If early elections are seen as necessary, the date for them should only be discussed after parliament has passed reforms," Mr Ecevit told a meeting of his Democratic Left party. "We do not want early elections but we do not fear them either."

A tax reform bill, passed by a parliamentary commission last week, is awaiting debate in the general assembly. Another draft law to reform Turkey's crumbling social security system is being held up by the government's leftist critics.

Deniz Baykal, a leftist opposition power-broker, on Tuesday called for polls in the autumn in a speech reflecting speculation that elections would be held before they are due in 2000.

Turkish financial markets have been weighed down in recent weeks by fears of early polls and a row between the military and the conservative-led government over how to combat Islamism. Reuters, Ankara

VATICAN-POLAND RELATIONS

Pope hails new treaty

Pope John Paul II yesterday hailed a new treaty between the Vatican and Poland which governs relations between the Polish state and the Roman Catholic Church. "We had to wait for this for 83 years," the pope said after a ceremony in which Jerzy Buzek, Poland's prime minister, and Cardinal Angelo Sodano, the Vatican's secretary of state, formalised a concordat.

The concordat was passed early this year by Poland's parliament, which is dominated by centre-right groups. About 90 per cent of Poland's population belong to the Catholic Church, at least nominally.

"One cannot forget the system of totalitarian government in Poland when our nation was subjected to many humiliations, many wrongs and limitations of freedoms," the pope said in a speech to the Polish and Vatican delegations.

The concordat followed a Church-backed decision by the centre-right majority in Poland's parliament late last year to restore tough restrictions on abortion, which had been eased by the previous leftist administration.

Among other provisions, the treaty makes church marriages legally binding and provides for religious classes starting from kindergarten. Reuters, Vatican City

PAPON TRIAL

Wife's death delays verdict

The judge in the trial of the accused Nazi collaborator Maurice Papon adjourned the proceedings yesterday for five days after the death of the defendant's wife of 65 years. Mr Papon's lawyers said a verdict in the nearly six-month-long trial was now expected next Wednesday. Before the delay, a verdict had been due late tomorrow.

Paulette Papon, 88, died of cancer during the night at the couple's home in Gretz-Armainvilliers, a suburb east of Paris.

The main defence lawyer, Jean-Marc Varaut, began his closing statement on Tuesday, arguing that the charges against his client were "in shreds" and that the trial was a farce aimed at excusing France's second world war guilt.

Mr Papon, who served as Paris police chief and budget minister after the war, is accused of ordering the arrest for deportation of 1,500 Jews in 1942-1944 when he was secretary-general of the Bordeaux region prefect's office and supervisor of its Service for Jewish Questions. Reuters, Bordeaux

EUROPE

Milosevic pressed on Kosovo dialogue

By Peter Norman in Bonn

Leading western countries and Russia insisted yesterday that Slobodan Milosevic, the Yugoslav president, make an urgent start to unconditional dialogue with the Albanian community of Kosovo on greater autonomy for the Serbian province.

Warning that they would keep up sanctions and apply further measures in four weeks' time if necessary, the foreign ministers of the Contact Group - the US, Russia, Germany, France, Britain and Italy - said they expected Mr Milosevic to take "personal responsibility for ensuring that Belgrade

engages in serious negotiations on Kosovo's status."

Madeleine Albright, the US secretary of state, who chaired the group, said the timing of yesterday's talks, two weeks after a previous Contact Group meeting in London, was a measure of the danger of the crisis in Kosovo. About 80 ethnic Albanians, including women and children, have been killed during the Serbian crackdown of recent weeks.

Mrs Albright told the meeting that Mr Milosevic had been "bobbing and weaving" in response to international pressure to commit himself to a solution in the province, where 90 per cent of the 2m population

are ethnic Albanians. Progress, she said, would be achieved only by sustained pressure. "If we settle for half measures, all we will get are half measures."

She said also Mr Milosevic had not done enough to meet demands made in London.

"We decided to focus all our diplomatic efforts on promoting an immediate start to dialogue," she said. Mr Milosevic "must embrace dialogue publicly, enter it with no preconditions, accept outside participation and take political responsibility for making it work".

Robin Cook, the UK foreign secretary, made clear sanctions would include a freeze on foreign assets of

the Yugoslav and Serbian governments if no progress was made in the next four weeks.

Yesterday's negotiations were difficult. It was with reluctance that Russia joined the other five countries in agreeing to implement credit and visa sanctions announced on March 9 and to seek adoption by March 31 of a United Nations arms embargo on rump Yugoslavia, which comprises Serbia and Montenegro.

Mrs Albright admitted the US would have liked more

from yesterday's talks. "We are moving gradually but unmistakably forward in the direction of greater pressure on Belgrade," she said. "We have sustained the minimum degree of pressure needed to move the process forward."



Austrians oppose EU enlargement

By Eric Frey in Vienna

On the eve of the European Union membership negotiations with five east European countries and Cyprus, polls show that a majority of Austrians oppose the enlargement of the EU.

Worries focus on competition from low-wage workers and cheap products, as well as an immigration wave and rising crime once the borders to Slovenia, Hungary and the Czech Republic are opened.

According to a Eurobarometer poll issued this month,

a majority of Austrians would deny EU membership for four of the five applicant countries from eastern Europe.

The negative sentiment also surprises Austria's EU partners and Brussels officials, who often consider enlargement as a pet project by Germany and Austria.

"I find the excitement in Austria strange because the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely because of exports to eastern Europe. This broadly negative sentiment goes against the coalition government's position on enlargement as well as indications that the Austrian economy benefited handsomely from the opening of eastern borders after 1989. Last year, the trade deficit shrank by 32 per cent from the previous year

largely

THE AMERICAS

US plans customer choice in electricity

By Bruce Clark in Washington

The Clinton administration yesterday unveiled a long-awaited plan for the electricity industry which would allow customers to choose their own supplier by 2003, except where state governments opt out.

The plan, which cuts a middle path between a host of competing proposals for the sector's future, also calls for a surcharge on electricity that would create a \$3bn fund aimed at promoting

energy efficiency, conservation and aid for low-income consumers. Most of the plan would require action from Congress, which is regarded as very unlikely to pass a comprehensive bill on the electricity sector this year.

The blueprint would leave state governments to decide the issue of stranded costs: whether or not utilities can pass on to consumers the cost of past investments, especially in nuclear power, which have been rendered uneconomic by competition.

Administration officials said the plan would save the average family of four some \$22 per year, by spurring electricity providers to make use of cheaper technologies and cut retail prices. It would also cut the emission of heat-trapping greenhouse gases by 25m to 40m tonnes by 2010 – by increasing the pressure on electricity producers to use new natural gas-based technologies which are environmentally benign as well as cheaper than coal.

But the plan does not call for any formal curbs on greenhouse gas emissions which environmental campaigners would like to see. The proposal was unveiled by Federico Pefia, the energy secretary, and Carol Browner, the administrator of the Environmental Protection Agency.

But industry experts said it was questionable whether those two officials could overcome the reluctance of Congress to take radical action over electricity.

unless President Bill Clinton or Vice-President Al Gore become personally involved in lobbying legislators.

The most Congress is likely to do this year is abolish a law that restricts the freedom of utilities to diversify, expand and raise capital – a minimalist agenda that is favoured by parts of the industry, but regarded as far too little by advocates of reforming the sector.

Yesterday's proposal would increase the power of the Federal Energy Regula-

tory Commission to prevent large utilities from obtaining a dominant position, and to ensure the reliability of the national grid. The influential utilities lobby is expected to insist that the current, voluntary approach to maintaining reliability should be kept in place.

But the proposal includes a concession to the older, established utilities by allowing state governments to opt out of the plan to mandate retail competition in five years' time.

Smoking incurs \$130bn costs

By Mark Suzman in Washington

Tobacco-related illnesses cost the US economy \$130bn a year through medical care and lost productivity, according to a Treasury study.

The report says that meeting targets for cutting smoking in the proposed national tobacco settlement would generate an annual economic gain of \$60bn within 10 years.

Lawrence Summers, deputy Treasury secretary, yesterday said investment of \$780bn at a rate of return of 10 per cent would be required to produce the same overall gain – more than the US annual corporate investment in machinery and equipment.

"Nearly \$80bn per year that our economy would have lost with those lives [damaged by smoking] can instead be used to add to their lives and the lives of other Americans," he said.

He urged Congress to approve the multi-billion dollar deal. "The stakes are high, the right path is clear."

Although the new estimates are controversial – for example they do not take into account medical savings from premature deaths or sales generated by the industry – they will add to pressure on Congress to act on the settlement during the current legislative session.

Argentina takes step closer to repeal of amnesty laws

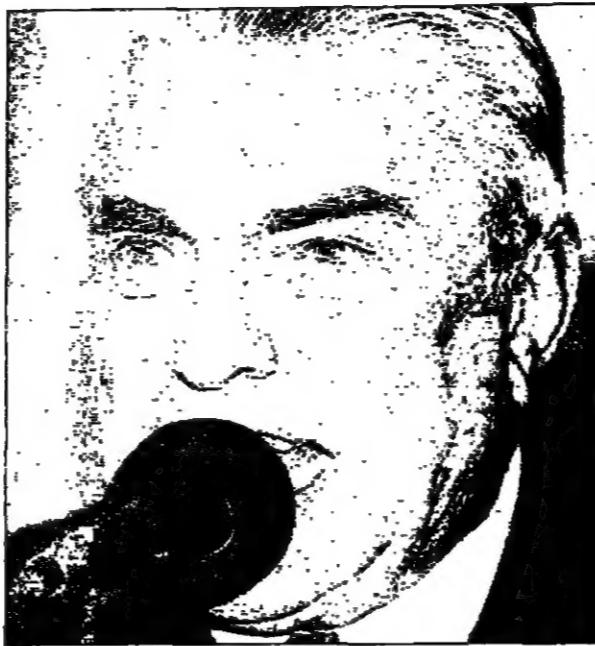
By Ken Wain in Buenos Aires

Argentina's lower house of Congress has voted to repeal laws granting amnesty to the perpetrators of human rights abuses during the 1976-83 military dictatorship, which killed as many as 30,000 of its political opponents.

In a rare act of political consensus, deputies from the ruling Peronist party and the opposition Alliance combined on Tuesday night and voted to strike down the laws. The repeal must be approved by the Senate and could yet be vetoed by President Carlos Menem.

However, the vote is a move towards legal normality and has raised the hopes of human rights campaigners that more information will come to light about the fate of the "disappeared" in a truth commission due to be set up soon. Human rights groups estimate some 30,000 people were killed during the military's "dirty war" against its political opponents and 16,000 cases have been documented.

The "Full Stop" and "Due Obedience" laws were passed by the civilian government of President Raúl Alfonsín in 1986 and 1987 in an effort to cool continued military unrest. They halted fresh prosecutions of the military and shielded junior officers from prosecution on



Antonio Bussi: fighting for political survival

the grounds that they were being ordered. Mr Menem pardoned convicted officers and jailed leftwing guerrillas in 1989 and 1990.

Repeal of the laws, if ratified, will not be retrospective and is unlikely to open the way to renewed human rights abuse trials. However, it would put a halt to the Due Obedience defence in future cases of human rights violations. The vote was "a step forward," said Carlos "Chacho" Alvarez, one of the

Alliance's co-leaders.

The halting of prosecutions and lack of information over the fate of the "disappeared" continue to confuse Argentina. Tuesday's vote coincided with protests to mark the 22nd anniversary of the coup which toppled the government of Isabel Perón and brought the military to power.

Angered by the bar on trials of the military, campaigners have taken to harrying former members of the armed forces.

regime, demonstrating outside their houses and daubing the walls with slogans.

Investigators are also examining the possibility of prosecuting former members of the military regime for economic crimes, such as seizing their victims' assets. Baltasar Garzón, a Spanish judge investigating the fate of 600 Spanish citizens who disappeared during the "dirty war," has detected a series of Swiss bank accounts belonging to former regime members.

Former General Antonio Bussi, the governor of Tucumán Province both under military rule and again now, is fighting for political survival after admitting to possessing an undeclared Swiss bank account. Mr Bussi was sanctioned by a military tribunal last week for not declaring the account.

Judge Garzón's investigation has infuriated Argentina's government, which questions his jurisdiction outside Spain, and led to tensions with Madrid. "Crimes should be judged where they occurred," said Raúl Granillo, justice minister, last week.

Mr Menem has made repeated calls for national reconciliation over the "dirty war," during which he himself was imprisoned. However, earlier this month he sprang to the defence of the armed forces.

NEWS DIGEST

MEXICAN BUDGET

Decision to cut spending wins widespread praise

Mexican businessmen and economists yesterday applauded the government's decision to cut spending for the second time this year in response to falling oil revenues. Late on Tuesday, José Ángel Gurria, finance minister, announced he would trim expenditures by 8bn pesos (\$1.06bn), or 1 per cent of the 1998 budget, to prevent expansion of the fiscal deficit. Mr Gurria said the new "preventive adjustment" was in addition to 15.3bn pesos slashed from the budget in January. Mr Gurria said the spending cuts would affect infrastructure projects in the state-owned oil and electricity sectors, but not Mexico's projected economic growth of 5 per cent this year. The fiscal deficit target of 1.25 per cent of gross domestic product was unchanged.

Oil exports are the single biggest revenue source for the Mexican government, accounting for between 30 and 40 per cent of the government's income. Mr Gurria said the government was recalculating oil income for the rest of the year based on an average price of \$12.5 a barrel for the basket of Mexico's light and heavy crudes. This compares with oil price estimates of \$13.5 in January and \$15.5 in December. Leslie Crawford, Mexico City

US DURABLE GOODS

Orders fall 1.7% in February

Orders for US durable goods fell by 1.7 per cent to \$184bn during February, the US Commerce Department said yesterday, but economists remained optimistic about the pace of the US economy. Although the fall in durable orders was more than expected, most of the decline was due to the volatile aircraft sector. Excluding transport, orders rose by 0.5 per cent from January, the third consecutive monthly increase.

Most analysts blamed falling demand from Asia, but they also said the crisis had contained mortgage rates, which drove the pace of home sales to record levels last month. The National Association of Realtors said sales of existing homes rose 8.7 per cent in February to a seasonally adjusted annual rate of 4.75m, up from 4.37m in January.

Defence orders, led by aircraft, declined sharply by 27.8 per cent. Non-defence orders slipped by only 0.6 per cent. Excluding aircraft, non-defence orders rose 1.3 per cent in February, after even larger gains in December and January. Transport equipment, down in two of the last three months, recorded the largest decline – falling \$3.8bn, or 8.5 per cent, to \$41.6bn. However, the decline in the aircraft sector was more than offset by an increase in vehicles and parts. Nancy Dunn, Washington

NOVA SCOTIA ELECTION

Narrow win for Liberals

Canada's Liberal party appears to have survived a leftwing threat in Nova Scotia's election, retaining the right to govern the Atlantic province but only by the slimmest margin possible. The majority Liberal government of Russell MacLellan, the provincial premier, was reduced to just 19 seats in the 52-seat legislature, tying with the left-leaning New Democratic party. As the incumbent party, the Liberals will form the next government, but they could quickly be defeated by a non-confidence vote. Nova Scotia Liberals, who held 39 seats in the previous government, have seen their popularity eroded by five years of spending cuts, particularly in health care and education. The national Liberal party, which has also cut spending, fared poorly in the region during last year's federal election. Scott Morrison, Toronto

Property prices dip in Japan for 7th year

By Gillian Tett in Tokyo

Real estate prices have fallen in Japan for the seventh consecutive year, a key government survey showed yesterday.

The National Land Agency's annual report on listed land prices showed that prices for commercial properties in big metropolitan areas fell 7.5 per cent in the year to January 1998, compared with an 11.5 per cent fall in the previous year.

Nationwide, commercial property prices fell 6.1 per cent compared with 7.8 per cent the previous year.

Residential land prices in big metropolitan areas fell 2.2 per cent, compared with a fall of 2.8 per cent the previous year.

And nationwide, residential prices fell 1.4 per cent, compared with 1.6 per cent the previous year.

The NLA survey was conducted in January this year. The report, which surveys so-called "listed land prices," is used as a benchmark for public and private land transactions and for government assessment of inheritance and property taxes.

The NLA yesterday pointed out that the annual rate of decline was now easing compared with the early 1990s. However, it admitted that the fall in residential real estate prices appeared to accelerate in the second half of the year.

This fall represents a blow for the Japanese government, which had hoped that the decline in property prices since the collapse of the 1980s bubble was finally ending.

Land prices are playing a particularly crucial role in the Japanese economy at present because the banks hold a large amount of property-related bad loans. Consequently, if property prices fall, this makes it harder for banks to write off their bad loans.

India's fiscal position 'worse than expected'

By Mark Nicholson in New Delhi

Yashwant Sinha, India's new finance minister, told an unruly parliament yesterday he had inherited a "significantly worse" fiscal position than expected, revealing a fiscal deficit for this year of 6.1 per cent of gross domestic product against the target of 4.5 per cent set by the former United Front government.

Mr Sinha, in office for less than a week in the government led by the Bharatiya Janata party (BJP), was presenting an interim budget to tide over government finances for the first quarter of the next fiscal year.

Mr Sinha sketched a gloomy picture, saying GDP growth for the fiscal year ending this month had slowed to 5 per cent, resulting from a 2 per cent fall over 10 years.

starting on April 1. As an interim budget, the minister could only carry over existing tax structures – which he said currently implied an estimated fiscal gap next year of 6 per cent of GDP.

However, Mr Sinha said he would present a full budget "in a few weeks" which would aim to cut the implied deficit while also stimulating India's flagging economy. He also said "economic reforms will be deepened, broadened and accelerated".

Mr Sinha sketched a gloomy picture, saying GDP growth for the fiscal year ending this month had slowed to 5 per cent, resulting from a 2 per cent fall in the previous year.

The Australian government has decided to give the country's three commercial television broadcasters and two public broadcasters exclusive rights for 10 years to begin free digital TV broadcasting.

The government ruled out the prospect of a fourth and fifth commercial TV network

agricultural output and sluggish industrial growth of 4.6 per cent for the 12 months to January. He said exports had posted negative growth in dollar terms for the three months to January.

The fiscal gap he blamed chiefly on "major shortfalls" in tax receipts, which were 12.6 per cent down on the budget estimates made last February by P. Chidambaram, his predecessor.

However, the cause lay in lower customs and excise receipts, due to slow imports and sluggish industrial production, rather than in lower direct tax receipts. Mr Chidambaram's budget aggressively cut both

income and corporate taxes.

Cutting expenditure and revenue into next year based on present tax rates, Mr Sinha said the government would incur a fiscal gap of 6 per cent of GDP, which he said was "not acceptable".

His budget would aim to cut this to a "reasonable limit," though the scale of the task was indicated by the fact that 39 per cent of the foreseen rise in government expenditure for next year lay in a Rs103bn (\$2.6bn) rise in interest costs.

Without elaborating in a short speech, Mr Sinha said his budget would seek to stimulate agriculture and industry, revive exports, encourage bigger foreign investment flows – subject to the BJP alliance's stated reservations – and take "decisive initiatives" to improve infrastructure.

Mr Sinha's speech was delayed by more than an hour at a G.M. Balayogi, the newly elected and controversial BJP-backed choice as speaker of parliament, struggled to control unruly opposition MPs, many of whom walked out to protest at the new government's handling of relief for Tuesday's typhoon in West Bengal.

The uproar, which left Mr Balayogi repeatedly pleading "please, this is not good, this is not good" with the book of

parliamentary rules open before him, boded ill for the BJP alliance's prospects of managing its slim parliamentary majority.

The government tomorrow faces a formal confidence vote, which it is expected to win.

Earlier, K.R. Narayanan, the president, had formally opened parliament with an introductory address outlining the new government's objectives, which laid heavy emphasis on improved social programmes to alleviate hunger, homelessness, illiteracy and unemployment. It also promised higher spending on agriculture and infrastructure.

The US, a founder member of Keda along with the governments of South Korea and Japan, is seeking additional contributions from Europe to help make up the shortfall. Without additional funds, the shipments of oil will stop "in the not too distant future," he said.

It is important to keep the oil flowing, he said, because North Korea had lived up to its commitment under the \$5.2bn project to freeze its nuclear programme that allowed it to produce weapons-grade plutonium. "We're on the lip of a terrible plunge if North Korea were to deliver, and we were not."

Economists were pleased that Mr Ahmad left open the possibility of a worsening situation and supported his view to keep monetary policy tight despite hints by the authorities of a possible loosening. "They're moving in the right direction," said Neil Saker, head of regional economic research at Salomon Brothers.

Mr Ahmad declined to project how high the ratio of non-performing loans will rise from 8.7 per cent at the end of February. Economists suspect 20 per cent.

Mr Ahmad further indicated the central bank would not be able to consolidate the finance companies as much as it had hoped and, indeed, the government was extending a one-year guarantee against further reduction in value of the acquired assets to instill confidence in acquiring institutions.

While Japan and South Korea are anxious about starting to contribute this money without a solution, the US wants to avoid delays. The US could manage to put up only a small amount of the extra \$500m, Mr Cleveland said.

Australian TV blow to Murdoch

By Gwen Robinson in Sydney

News Corporation, Rupert Murdoch's media group, has been excluded from the Australian market for terrestrial digital television broadcasting for at least another decade.

The Australian government has decided to give the country's three commercial television broadcasters and two public broadcasters exclusive rights for 10 years to begin free digital TV broadcasting.

The government ruled out the prospect of a fourth and fifth commercial TV network

before 2008, effectively barring pay-TV operators and other potential rivals, such as Mr Murdoch's News Corp.

Australia is the second big digital TV market from which Mr Murdoch has been excluded. Last year British Digital Broadcasting, the fledgling digital broadcasting technology, consumer groups warned the decision could lead to monopolisation of information content supplied by existing broadcasters.

The new digital framework, announced on Tuesday, was a blow to Mr Murdoch, who has led combined efforts by the country's pay-TV operators to persuade the government to auction off the entire digital spectrum.

In a bitter year-long battle over the issue, Mr Murdoch forged a strong alliance with his rivals in the pay-TV industry against the three commercial broadcasters.

The government also decided to open up spare capacity on the new digital spectrum to other communications companies, as well as the three commercial broadcasters, for the provision of data services, including online advertising and electronic commerce.

Under the plan, companies will be able to bid in competitive auction for spectrum to provide such data services.

financing a debt rescheduling along the lines of the Ficcora scheme used in Mexico in the 1980s.

Although Mr Tamri did not elaborate, bankers speculated it would include a dollar fund that debtors could tap to borrow dollars at a fixed, artificially low exchange rate to pay interest.

It would also require a government agency which, with government backing, would collect principal payments in rupiah and forward them to debtors following a grace period.

Such a scheme would amalgamate a proposal by

Malaysia acts to strengthen financial sector

Technology

And now for the realities—instead of the

rumors—about the future of DIGITAL

technologies. The future of DIGITAL UNIX;

Alpha and OpenVMS® can be summed up in

two brief phrases: Continued success.

Continued support. The fact is, these products

are at the heart of much of the world's

information infrastructure. For countless

companies—in every

thing from aerospace to

telecommunications.

From Wall Street to the

Web—they perform

crucial, mission-critical tasks, day in, day out.

And no matter whose name is on our door,

they will continue to do so. Need any more

rumors quashed? For the most powerful

range of answers in computing—UNIX,

OpenVMS and Windows NT; Alpha and

Intel—visit www.digital.com/quash.

And get ready to win in a networked world.

digital

quash

ted' Fuel oil
supplier
seeks
N. Korea
cash

acts
men
ector

WORLD TRADE

Brussels set for climbdown over BSE

By Michael Smith in Brussels

The European Commission yesterday prepared for a climbdown over BSE, or "mad cow" disease, by signalling it was close to abandoning its fight for an early ban on potentially infectious animal parts.

The European Union's executive stance means an EU-enforced ban on so-called "specified risk materials" in some countries from next

January is extremely unlikely.

There are increasing doubts whether a ban will ever be implemented.

This will please the US, which has argued the proposed ban on "specified risk materials" was unnecessary and would have severely disrupted trade.

However, it will dismay consumer groups which have argued for the ban on animal parts, including

brains and spinal cords, on the grounds that they are at risk of carrying BSE.

The Commission said yesterday it would make a final attempt tomorrow to establish an EU regime on specified risk materials. It considered "these measures essential to achieve a high level of consumer protection from the risk of BSE".

The "last ditch" attempt will be made at a meeting of EU country representatives

who will be asked to amend a July 1997 ban proposal which the Commission has the authority to implement.

It seems likely to fail since the suggested changes have already been rejected by farm ministers.

The Commission conceded yesterday that the July 1997 proposal, due to come into force on April 1, "cannot apply as it stands" because of the emergence of new scientific evidence and because

of the problems it would cause to the supply of essential life-saving pharmaceuticals.

The threat to pharmaceuticals, which contain products made from animal parts, is one of the reasons the US has opposed the ban.

The Commission had not intended to disrupt trade in pharmaceuticals or a range of industrial goods which contain products

made from cattle parts.

But some countries saw their chance to block a ban they opposed by refusing to accept changes to the July 1997 proposals. The Commission said yesterday that if countries refused to accept amendments tomorrow it would withdraw its July 1997 proposal.

It added that it would then submit a new proposal with the aim of achieving a long-term solution.

Brussels renews anti-dumping cotton duties

By Neil Buckley in Brussels

The European Commission has imposed provisional anti-dumping duties on imports of unbleached cotton from six Asian countries for the second time in two years – in defiance of opposition from a majority of European Union states.

The measures were welcomed by Eurocotton, the textile weavers' association which brought the dumping complaint. But they provoked anger among the countries affected and various trade groups including those representing textile importers and finishers who say their segment of the industry will be damaged by the controversial duties.

The 20 European commissioners decided yesterday, without discussion, to impose duties with a base level of 15.7 per cent on China, 20.6 per cent on Egypt, India (15.8 per cent), Indonesia (31.7 per cent), Pakistan (32.5 per cent) and Turkey (14.2 per cent).

The move came in spite of a 9-5 vote against the measures, with one abstention, in an advisory committee of EU states' representatives.

Brussels can impose provisional duties for six months without a vote by EU ministers, though it must consult the advisory committee – whose vote it rarely over-

rules. Ministers must vote to convert provisional duties into definitive five-year duties within six months; otherwise they lapse. This is the second time the Commission has imposed provisional measures. A first set of duties were removed after ministers voted 9-4 against them last May in spite of intervention in favour of the measures by President Jacques Chirac of France.

Brussels opened a new inquiry into the case last summer, despite complaints from free trade groups that this represented unfair harassment of the countries affected.

The Commission said yesterday its move to impose duties was consistent with the findings of its investigation that all six countries had been involved in dumping which damaged EU industry.

Michèle Anseline, secretary-general of Eurocotton, said the Commission's investigation had been carried out "objectively and thoroughly". She was confident ministers would back the measures in six months.

The complaint, brought by the US, involves some \$2.5bn of US exports of Local Area Network (LAN) adapter equipment, making it one of the most important cases in commercial terms heard by the world trade body.

MEXICO TELECOMS

Talks on connection fees open

By Henry Trick in Mexico City

Mexico has brought forward talks on telephone interconnection rates following complaints that current levels are stifling foreign telecoms business in Mexico.

Carlos Casasus, head of the Federal Telecommunications Commission (Cofetel), said the talks, scheduled to begin in June, were already under way. Even this year's rates were under discussion, he said.

Interconnection fees, which Telmex, the domestic telecoms operator, charges long-distance competitors to complete calls locally, are a key part of Telmex's revenues.

A main rival, Avantel, claims Telmex has the world's highest interconnection fees.

The negotiations have already begun, Mr Casasus said. "It's very likely that we could have negotiations between the different sides that affect interconnection rates this year in exchange for different conditions next year."

Mr Casasus has previously argued that this year's rates were spelled out in 1996 and would not be changed. But pressure has been exerted by Telmex's long-distance rivals, especially US carriers AT&T and MCI which have

sought to block Telmex's access into the US.

Mr Casasus also said that separate talks were under way between Telmex and US authorities on the international settlement rates charged to US carriers to complete international long-distance calls in Mexico.

The negotiations have already begun, Mr Casasus said. "It's very likely that we could have negotiations between the different sides that affect interconnection rates this year in exchange for different conditions next year."

Mr Casasus has previously argued that this year's rates were spelled out in 1996 and would not be changed. But pressure has been exerted by Telmex's long-distance rivals, especially US carriers AT&T and MCI which have

Mexico were partly borne out last week when Mexico's anti-trust Competition Commission ruled that Telmex was a "dominant carrier" or monopoly, which exposes it to tighter regulation than before.

The decision was hailed by Telmex's competitors, some of which have complained that it has received benign treatment from regulators. "It's going to provide Cofetel with a much broader set of tools with which to regulate Telmex," said Bob Lacey, Avantel's vice-president of regulatory affairs.

But Mr Casasus sought to dampen expectations of the impact of the decision. The main effect will be to require Telmex to provide a breakdown of its accounting in different markets.

EU challenges ruling on tariffs

By Frances Williams in Geneva

The European Union has appealed against a World Trade Organisation panel judgment that Britain and Ireland breached WTO rules by reclassifying computer networking equipment to higher-tariff categories.

The complaint, brought by the US, involves some \$2.5bn of US exports of Local Area Network (LAN) adapter equipment, making it one of the most important cases in commercial terms heard by the world trade body.

The panel said the two countries had violated accords reached in the Uruguay round of global trade talks by shifting LAN equipment from a low-tariff classification covering computer equipment to a higher category for telecoms devices.

The EU says it is concerned to ensure that the WTO's Information Technology Agreement, which will eliminate tariffs on high-tech goods by the year 2000, cannot be undermined by reclassifications.

The EU says the reclassification is consistent

with WTO rules. The appeal was notified just before a meeting of the WTO's dispute settlement body which had been due to adopt the panel report.

Meanwhile, the US and five Latin American countries complained yesterday that proposals to change the EU's banana import regime appeared inconsistent with WTO rules. The WTO has given the EU until January to change its banana import policies.

However, EU ministers have not yet agreed on modifications proposed by the European Commission.

satisfied. Canada and the US are third parties in the dispute, along with Peru.

Meanwhile, the US and five Latin American countries complained yesterday that proposals to change the EU's banana import regime appeared inconsistent with WTO rules. The WTO has given the EU until January to change its banana import policies.

However, EU ministers have not yet agreed on modifications proposed by the European Commission.

INTERNATIONAL

US tests Mideast peace waters

By Judy Dempsey in Jerusalem

Dennis Ross, US Middle East envoy, arrives in the region today to assess whether the time is right for the US to put forward proposals to kick-start Israeli-Palestinian peace talks.

The US is under pressure from Israel not to present a plan envisaging a second phased Israeli troop withdrawal from the West Bank and 26 per cent of the Palestinian population is under full Palestinian control.

The Israeli cabinet has already rejected the US plan although the European Union wants Washington to go ahead with it. Kofi Annan, United Nations sec-

retary general, yesterday told Israeli parliamentarians to honour land for peace, saying Israel was responsible for "provocative acts" including building Jewish settlements and confiscating land.

The plan will be unveiled during the Knesset (parliament) recess to preempt any no-confidence votes by nationalists in the coalition who oppose any pullback. But there is concern Mr Netanyahu could accuse nationalists and settlers by releasing land for building homes at Har Homa, the controversial new settlement in east Jerusalem. Diplomats said the consequences of such a move would be "catastrophic".

The Palestinian Authority fear Mr Netanyahu's proposals will reduce US and EU influence in Israeli-Palestinian talks.

status talks. This, diplomats say, would further strengthen Israel's negotiating position and contravene the Oslo peace accords under which the third pullback should take place by the middle of this year.

The plan will be unveiled during the Knesset (parliament) recess to preempt any no-confidence votes by nationalists in the coalition who oppose any pullback. But there is concern Mr Netanyahu could accuse nationalists and settlers by releasing land for building homes at Har Homa, the controversial new settlement in east Jerusalem. Diplomats said the consequences of such a move would be "catastrophic".

The EU also offered to monitor compliance but Israel ruled out any direct EU involvement in Israeli-Palestinian talks.



UN secretary general Kofi Annan and his wife Nane at the Wallenberg memorial in Jerusalem yesterday. Mrs Annan is a niece of the Swedish diplomat who saved hundreds of Jews from Nazi death camps. Picture AP

Putting down routes: ebb and flow in Caspian pipeline politics

A link with Turkey now looks imminent, but the diplomatic and commercial contest is far from over, writes Bruce Clark

At last year, one of the architects of Washington's strategy in the Caspian emerged from retirement to issue a blunt message: the US might be losing the battle to guide the region's energy flows towards western markets.

US officials insist that the picture has improved from their viewpoint, since the warning delivered in a newspaper article by Sheila Heulin, a former National Security Council strategist. Several encouraging developments have boosted their hopes that Turkey, rather than Russia or Iran, will provide the most important export route for energy from the former Soviet republics.

But the diplomatic and commercial contest is far from over – in spite of a series of upbeat predictions that a final decision is only months away on the construction of a giant pipeline linking Baku in Azerbaijan with Ceyhan in southern Turkey.

The governments of the US, Turkey and Azerbaijan have all declared their

strong support for this pipeline, which would cost at least \$2.5bn and run through several potential zones of conflict on its 1,700km route. But consensus still has to be reached among the partners in Azerbaijan's main oil consortium, which include US, UK, Russian and Japanese concerns.

Ms Heulin's gloomy prognosis highlighted two unwelcome pieces of news for US policy-makers: the strong interest shown by European companies such as Royal Dutch/Shell in building pipelines across Iran, and a Franco-Russian contract to extract gas off the southern Iranian coast. These developments, she noted, highlighted the difficulties faced by Washington as it seeks to minimise the involvement of Iran in the region's long-term energy developments.

But US officials insist that the outlook for their vision of the Caspian region's future – one of multiple pipeline routes designed to avoid giving any country a stranglehold – has bright-

ened in number of ways. First, Russia has moderated its position on the sharing out of the Caspian's riches by joining Kazakhstan in calling for an early agreement on dividing up the seabed's resources.

Second, there are hopes of a settlement in a Caspian demarcation dispute between the gas-rich state of Turkmenistan and Azerbaijan, a republic on which western policy has taken a giant bet. A third, intriguing factor to enter the equation is the prospect of "gas leading oil" – with a gas pipeline shadowing the proposed oil pipeline from central Asia to

growing demand for gas being met by a trans-Caspian pipeline, rather than directly from Russia.

The commercial logic for a Baku-Ceyhan oil pipeline may be challenged by sceptics, at a time when world crude prices are falling, and alternative routes through Russia and Georgia can probably cope with 400,000 of the 700,000 barrels a day which the main Azerbaijan consortium expects to produce. But supporters of the gas pipeline idea can point to estimates that gas consumption in Turkey is likely to quadruple in 12 years.

While the trans-Caspian line presents huge technical challenges, Russia has made an even bolder counter-proposal: the construction of an under-sea gas route linking its port of Tuzla with Samson on the north Turkish coast.

The reaction to this proposal in Washington has been cool. "We don't find this helpful," said a US official. "It would enhance Russia's already preponderant position in the Turkish gas market."

The alternative of building an energy route from Azerbaijan to Turkey need not exclude Russian participa-

Clinton accepts share of blame for genocide

By Michael Wrong in Kampala

President Bill Clinton yesterday met maimed survivors of Rwanda's 1994 genocide and acknowledged the world had not done enough to stop the state-sponsored massacres.

Visibly shaken, he listened to chilling personal stories. One woman had lost nine members of her family in a 90-day killing spree. Another saw her parents and four siblings die.

Orchestrated by the Hutu-dominated government and interahamwe militias, the slaughter took place, Mr Clinton acknowledged, while "all over the world there were people like me sitting in their offices... who did not fully appreciate the depth and the speed with which they were being engulfed".

"The international community, together with nations in Africa, must bear its share of responsibility for this tragedy," he told an audience assembled for his three-hour stopover from neighbouring Uganda.

"We did not act quickly enough after the killing began. We should not have allowed the refugee camps to become safe havens for the killers. We did not immediately call these crimes by their rightful name: genocide."

The heart-felt *mea culpa* included pledges aimed at preventing a repetition of the butchery. International mechanisms for identifying nations in danger of genocidal violence must be strengthened, Mr Clinton said. He also promised to support the much-criticised international tribunal trying Rwanda's suspected killers at long last.

The leaders signed a communique with President Clinton to deepen respect for human rights as the shared "birthright of all men and women everywhere."

The United States "can help this continent reach its full potential in the 21st century," Clinton said after the three-hour summit. "We can be a force for good together and all our nations can be proud."

See Column 2, Page 12



the Mediterranean and providing an extra justification for the use of that route.

Unocal, a US energy company with an appetite for bold pipeline proposals, announced last month that it was teaming up with Turkey's Koc group to study the feasibility of a gas route running westwards across the Caspian and then into central Turkey and beyond.

US policy-makers are sympathetic to the idea of pipelines under the Caspian – with the potential to free Turkmenistan and points east from dependence on Iran and Russia. They would prefer to see Turkey's fast

growing demand for gas being met by a trans-Caspian pipeline, rather than directly from Russia.

The commercial logic for a Baku-Ceyhan oil pipeline may be challenged by sceptics, at a time when world crude prices are falling, and alternative routes through Russia and Georgia can probably cope with 400,000 of the 700,000 barrels a day which the main Azerbaijan consortium expects to produce. But supporters of the gas pipeline idea can point to estimates that gas consumption in Turkey is likely to quadruple in 12 years.

While the trans-Caspian line presents huge technical challenges, Russia has made an even bolder counter-proposal: the construction of an under-sea gas route linking its port of Tuzla with Samson on the north Turkish coast.

The reaction to this proposal in Washington has been cool. "We don't find this helpful," said a US official. "It would enhance Russia's already preponderant position in the Turkish gas market."

The alternative of building an energy route from Azerbaijan to Turkey need not exclude Russian participa-

NEWS DIGEST

JAPANESE CAR EXPORTS

Tokyo says Brussels has agreed to higher quota

Japan and the European Union yesterday agreed to raise Japan's 1998 quota for car exports to the EU, according to Japan's Ministry of International Trade and Industry. Officials from the two sides have been meeting in Tokyo since Monday to set this year's quota levels under a voluntary export monitoring system set up in 1993 and due to expire at the end of 1998.

The ministry official said the quota was increased to 1,657,000 vehicles, up 53,000 from last year, primarily reflecting an expected rise in EU demand. Another factor, he said, was Japanese carmakers' plans this year to introduce new models in the European market. The agreement does not cover Japanese vehicles made in the EU. Several Japanese carmakers have set their sights on the European market, with Toyota aiming to boost local production and increase overall sales in Europe by more than 10 per cent this year. Reuters, Tokyo

TELECOM MERGERS

Acquisitions at record \$17bn

says Brussels has
d to higher quota

BRITAIN

Rail link scheme may face new threat

By Jonathan Ford and Charles Batchelor in London

Railtrack, operator of the UK rail infrastructure, would buy the first section of the Channel tunnel rail link through the southern England county of Kent when it has been completed but would only take an option to acquire the second more expensive stage into central London, according to the latest proposals to rescue the £5.4bn (\$6bn) project. The tunnel runs between England and France.

Railtrack's reluctance to undertake the whole construction pro-

cess would not prevent the deal from going ahead, observers close to the transaction claim. But any deal that left open the possibility that the second stage would not be completed could not be sold to ministers.

Details of Railtrack's plans emerged on the day that it unveiled a £1.65bn, 10-year spending programme to maintain and upgrade the UK rail network. John Swift, the rail regulator, declared that he was still not satisfied and demanded firmer spending commitments.

John Prescott, deputy prime min-

ister, is due to announce the outcome of negotiations about the rail link within the next few days. If Railtrack and the shareholders in London & Continental Railways have put together a convincing proposal, he is expected to give them more time to complete the details.

LCR's first attempt to finance the project fell apart in January when it was forced to ask the government for a further £1.2bn of public subsidy on top of the £1.8bn already agreed.

Railtrack proposals prompted

claims from some of the rejected earlier bidders for the rail project that by failing to seek competing offers, the government had missed an opportunity to strike a better deal for the taxpayer.

Eurorail, a consortium headed by Kvaerner, the construction and shipping group, that came second in the bidding for the link in 1996 and Hochleit, a German construction group, are both known to be interested in bidding again to take on the project.

Eurorail is understood to have received legal advice that the government could offer it the contract

without going through a time-consuming and costly re-tendering process.

Eurorail has offered to review its bid for the project but apart from one informal meeting the government has refused further meetings with the consortium.

Under the latest Railtrack propos-

NEWS DIGEST

NORTHERN IRELAND

Senator Mitchell insists on agreement deadline

George Mitchell, the former US senator chairing the Northern Ireland peace talks, yesterday took the stalled negotiations by the scruff of the neck, announcing for the first time an explicit target date of April 9 to bring the process to "a swift and favourable conclusion".

After three days of frustrating deliberations at Stormont Castle, Belfast, the region's principal city, Senator Mitchell said: "The time for discussion is over. It is now time for decision."

Setting out a detailed schedule for the final two weeks of non-stop negotiations, Mr Mitchell said the participants would meet for all five days next week and the following week.

"The participants will remain in session continuously until these negotiations are concluded. We hope and expect that can be accomplished by Thursday April 9."

The British and Irish governments had already set the Easter week beginning April 6 as a deadline for the deal. The plan was to put a settlement to the people in referendums on both sides of the border in late May well ahead of the confrontational "marching season" in July.

Senator Mitchell's decision to spell out an explicit deadline will put additional pressure on the parties to reach an historic settlement of the Irish question.

The initiative was welcomed by the nationalist Social Democratic and Labour party. "We could be at this for forever if we don't set a deadline," said one SDLP official.

However, much will depend on the response of the Ulster Unionists to the senator's personal intervention, amid suggestions this week the UUP was seeking to frustrate the timetable by questioning the eligibility of Sinn Féin, political wing of the Irish Republican Army, to remain at the table. After a spate of terrorist attacks in recent weeks by splinter groups opposed to the process, Mr Mitchell urged the parties to show courageous leadership and maintain steady nerves. John Murray Brown, Dublin

Authority plans to quadruple fines on firms

By George Graham,
Banking Editor

The Securities and Futures Authority, which regulates brokers and investment banks, plans to increase its fines to bring it into line with other regulators.

But the SFA also intends to give more credit to member firms which own up to problems and deal with them properly, in the hope of persuading more companies to report problems. Nick Durlacher, SFA chairman, said: "We have made an effort at better defining the stick and carrot approach."

Although the SFA is expected to be rolled into the Financial Services Authority, the new single regulator, by the turn of the century, the new scale of penalties could still be operating for years to come. Take four or five years to complete.

The biggest fine the SFA has levied against a member firm was £500,000 (\$835,000.00), brought last year against Swiss Bank Corporation for two separate violations.

The Investment Management Regulatory Organisation has levied fines of up to £2m, and the Personal Investment Authority has also increased its tariff.

"It seemed to us firms had got stuck in a rut," Mr Durlacher said.

The SFA will recommend to disciplinary tribunals that they should multiply the penalties by four for firms and by two for individuals since they are less likely to be able to pay large fines.

But the regulator also wants to encourage firms to report problems by assuring them they will not necessarily bring disciplinary action upon themselves.

The SFA is particularly keen to increase the number of reports of "dirty withdrawals", where a trader or investment banker leaves a company because he has done something wrong, such as mis-valuing his positions. Unless the case is reported, the trader may be able to do the same thing at another company.

Mr Durlacher said many firms appeared to be taking the easy option of letting an individual leave quietly.

"We have a deep suspicion that the number of dirty withdrawals we get does not reflect the reality. It just gets swept under the carpet, and we'd much rather have it brought to light."

George Staples, a partner at solicitors Clifford Chance and a former director of the Serious Fraud Office, welcomed the SFA's move to give credit to companies which reported problems, but questioned the proposal to multiply the scale of fines by four.

Mayoral candidate gives Blair shivers

Ken Livingstone, London's most colourful civic leader since Dick Whittington, yesterday confirmed Tony Blair's worst fears by announcing his ambition to become the capital's first elected mayor. George Parker writes.

"Red Ken", now a left-wing Labour MP, was the most demonised man in British politics during his reign at the Greater London Council from 1981 until it was abolished in 1986. There is every chance he could become as much of an irritant to the prime minister as he was to his arch-enemy, Margaret Thatcher, the former Conservative premier, now Baroness Thatcher.

Dressed in his trademark baggy safari suit, Mr Livingstone told a press conference that he was worried that the government's plans for London would leave too much power in the hands of the mayor. That was why he wanted the job. Picture Jason Orton

UTILITIES GOVERNMENT PROPOSALS

Move to force share-out of excess profits

By Andrew Taylor
and David Wighton

A package of measures designed to prevent electricity, gas, telecommunications and water companies from making excessive profits was proposed yesterday by the government.

A discussion document called on utility regulators to develop mechanisms enabling consumers and shareholders to share excessive gains when companies had "deliberately misled the regulator by providing incomplete or inaccurate information".

It also suggested companies might have to share big price increases when they had benefited from factors outside their control, such as fuel prices falling sharply, said Margaret Beckett, chief industry minister.

But, after pressure from the government and the Treasury, the consultation document makes clear that the status quo is an option.

"One approach would be to rely exclusively on RPI-X

which governs existing price regulation," it says.

The Treasury was concerned that forcing companies to share "excess" profits with customers would reduce the incentive to increase efficiency and could raise their cost of capital.

The industry regulators welcomed the decision to retain RPI-X and pointed out that there were already mechanisms in place to claw back excess profits. Even if

the government introduced new "error correction mechanisms" it was unlikely to lead to substantial changes, they said.

Clare Spottiswoode, director-general of Ofgas, the gas industry regulator, said: "I welcome the fact that government has recognised that economic regulation should continue to be run by independent regulators."

The document also contains the expected proposal to separate the supply and distribution elements of electricity licences.

The move, which is expected to trigger a restructuring of the industry, comes as suppliers have been struggling to install the complex and expensive computer software systems needed for when the domestic electricity market, covering 25m customers, opens to competition this September.

Several US owners of UK electricity companies, angered by last year's windfall tax and disenchanted by the low margins on supply, are understood to be considering selling this side of their operations.

Potential sellers include Atlanta-based Southern

group, which is reported to be willing to dispose of all or part of South West Electricity for which it paid £1.1bn (\$1.8bn) in 1995. Others thought to be considering selling supply operations include American Electric Power, which last year paid £1.5bn for Yorkshire Electricity.

Editorial Comment, Page 11
Lex, Page 12

PERSONAL VIEW Gregory Palast

Regulators could learn from Texas chicken chef

From the US, the need for reform of Britain's system of utility regulation seems obvious. Britons pay nearly double the US price for electricity, double for local telephone calls and triple the US price for a litre of water.

I suggest the government takes some lessons in effective utility regulation from Kenneth Williams, owner of Leonard's Barbecue Chicken Shack in Houston, Texas.

Two years ago, Mr Williams forced the giant electricity monopoly, Houston Industries, to reduce its prices by \$1.5bn. Mr Williams had become suspicious of the electricity company's big rise in reported profits and asserted his right as a citizen to open an public inquiry. To back his demands, he invoked a US right to compel access to the account books and records of the privately owned utility.

Every US consumer has the right to look at account books, inventory lists, even hand-scratched memos locked in the desk of the electricity company president. Faced with having its financial soul laid open to public scrutiny, Houston agreed to cut its prices.

How is it that a Texas

chicken chef has had more success in controlling utility prices than Britain's expert regulators? To find out, let us do an autopsy on a recent and obvious blunder by a UK regulator which will cost the public a bundle in higher electricity bills.

In November, National Grid floated a portion of Energis, its subsidiary which strings fibre optic cables on National Grid power pylons. Shares sold out instantly based on a value for Energis of \$204m (\$1.5bn).

But the windfall will come out of the pockets of electricity customers in England and Wales. Every customer will pay for the National Grid to transmit power. The government sets prices based on National Grid's total value - less the value of the Energis subsidiary.

Therefore, the Energis flotation should have cut power charges by \$244m.

But it did not.

In calculating National Grid prices, the regulator, Stephen Littlechild, valued Energis at £250m. His mistake will cost Britain's consumers £244m. I asked the professor how he could have missed half a billion pounds.

"Because they [Grid executives] told me that Energis was risky, its value might be negative," he said.

Prof Littlechild was at a distinct disadvantage in facing down the utility chiefs. He had no access to the management's own projections and bankers' opinions which, undoubtedly, valued Energis closer to reality.

In the US, such crucial documents would have been available for review by any curious chicken cook.

Also, consider where the ill deed was done: behind locked doors, with the government regulator closeted privately with the utility honchos.

To British eyes, the US system is a shock. One Labour frontbencher shuddered at the concept of the US system. "It's too litigious, too complex, too many lawyers."

And it is true. US free-for-all public hearings are loud, messy, contentious and highly politicised - in a word, democratic.

Gregory Palast in New York won the 1997 David Thomas Prize, awarded in memory of the Financial Times reporter killed in 1991 on assignment in the Middle East.

FILM INDUSTRY

Minister unveils funding plans

Chris Smith, chief culture minister, yesterday unveiled proposals to raise up to £25m (\$42m) a year from the film industry and the National Lottery to invest in film training, distribution and cinema promotion.

The proposals were included in a package of recommendations published yesterday by the Film Policy Review Group, a body of film executives created by Mr Smith to modernise UK film policy. Other proposals included setting up a Los Angeles office to promote the UK as a production centre and launching an annual international film market in London. Alice Rawsthorn, London

CONTRACTS & TENDERS

GOA SHIPYARD LIMITED

(A Govt. of India Undertaking)

VASCO DA GAMA, GOA-403 802

GLOBAL TENDER NOTICE NO. COMM-83 ADVT. NO. 06CE/5KG/C-102 DTD. 16/4/98

Editorial Comment, Page 11
Lex, Page 12

TOPLOTNA OSKRBA d.o.o. Maribor, SLOVENIA ("TOM") hereby announces to international investors its

INVITATION TO BID
to become TOM's partner in the development of the
MARIBOR IPP PROJECT

TOM, the district heating company of the city of Maribor, Slovenia, is seeking an international strategic investor partner to complete development of the Maribor IPP Project (the "Project"). TOM is presently developing a gas-fired, combined cycle, cogeneration facility to be constructed on TOM's existing site in Maribor. The proposed facility would have electric capacity of 58 MW and thermal capacity of 39 MW, bringing the total thermal capacity to 142 MW. Technical and economic analyses of the concept have been completed, and letters of intent from the power and heat purchasers and the gas supplier have been provided.

The Project is described in detail in an Information Memorandum prepared by TOM's consultant Lahmeyer International (Germany). Potential investor partners may purchase the Request for Proposal ("RFP") and the Information Memorandum ("IM"), visit the data room inside TOM, and conduct on-site due diligence. Investors may bid alone or in consortium.

Parties wishing to submit a proposal should contact TOM d.o.o. Jadranka c.28, 2000 Maribor, SLOVENIA. (Tel. +386-62-301-181/Fax. +386-62-301-711). TOM will provide potential investors with a Confidentiality Agreement. After returning the signed Agreement along with an irrevocable bank cheque in the amount of ECU 1000 (one thousand) to TOM, the investor will receive the tender documents (RFP and IM) by courier.

A pre-bid conference will be held on 04 May 1998 at 10.00 in TOM's offices in Maribor. The final date of submission of proposals is 05 June 1998 at 10.00. The first ranked investor partner will be invited for negotiations at the beginning of July 1998.

★ MANAGEMENT & TECHNOLOGY

MANAGEMENT PRODUCT DEVELOPMENT

Whirlpool's platform for growth

Peter Marsh and Nikki Tait look at plans to rationalise the global production of domestic appliances

IT You've heard of the "world car" - now there is the "world cooker". More than 2,000 engineers are being mobilised by Whirlpool of the US, one of the world's two biggest makers of white goods, to bring product development in home appliances into line with automotive industry practice.

The company believes that by globalising the development of new products from air conditioners to dishwashers, it can introduce more innovative designs more quickly and at lower cost, pleasing both consumers and shareholders.

The plan, put into operation in the past few months, will base development of new products on "platforms". These will contain the technological heart of the appliance and will be the same all over the world. The parts the consumer sees - and which ensure that a cooker or refrigerator satisfies consumer tastes in specific regions - will be built on to the platform relatively late in the production process.

The project is based partly on experience in the car industry where the platform principle has evolved during the 1990s at companies such as General Motors, Volkswagen and Fiat.

Similar concepts are being tried in industries including tractors, lift trucks and printing equipment, but rarely on the scale that Whirlpool is attempting. The company believes its platform strategy puts it two to three years ahead of competitors in the

timers, dishwashers, laundry products, refrigerators and conventional cookers. The 2,000 product engineers working on the appliances - made in 35 factories around the world - are split into teams to look at common parts and subsystems.

According to Ron Kerber, who is Whirlpool's chief technology officer, is in charge of the project, the 135 platforms that support the company's different models worldwide will, within five years, be brought down to 65. "We should be able to make a richer mix of products by migrating ideas between different development groups," he says.

Through the process, Whirlpool is looking to reduce its \$200m-a-year development bill by 10 per cent, increasing the productivity of its product design team by 30 per cent.

By putting component sourcing on a worldwide basis and cutting its suppliers, Whirlpool should also be able to reduce purchasing costs by \$180m.

The changes are already bringing upheavals for Whirlpool's design staff, who previously worked fairly autonomously on products for different parts of the world. In the case of dishwashers, the products for the main markets in North America and Europe are quite different. Because in many US homes the machines double as garbage disposers, US-style dishwashers have mechanisms for chopping up bits of food. They also use more energy and water, and tend to be noisier.

But the 180 product engineers from Whirlpool that are joining together have realised that the differences

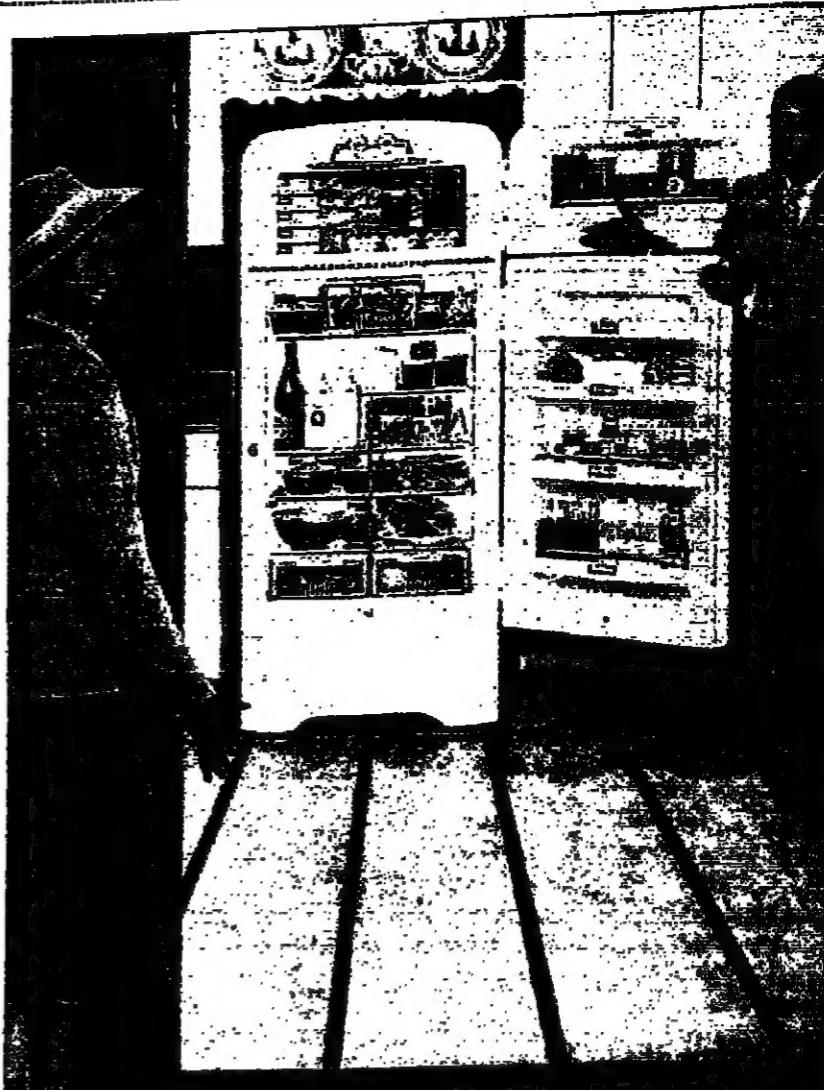
between them are fewer than they thought. As a result, the six basic platforms used to support different dishwasher models will be cut to three by 2002.

Fridges are notoriously hard to make on a world basis, because consumer tastes vary so enormously. US consumers prefer "larder-size" cabinets, which nearly all contain air-blowing systems to make them frost-free; the Germans want lots of space for meat, while the Italians are keen on special vegetable compartments. To cater for the large number of vegetarians in India, often within families that contain meat eaters, the fridges often require internal sealing systems to stop smells of different foods intermixing.

This diversity is behind the large number of existing platforms for fridges - 48, which the company wants to reduce to 25 by early next decade.

Aiding the process is a Whirlpool internet website for fridge features, setting out about 170 ways of specifying or arranging parts such as lettuce crispers or shelving units, which engineers can look up to smooth the product design process.

"In this way an engineer in Brazil who wants a specific aspect for a new refrigerator can look up the website and borrow an idea that has already been invented for a product in the US or Europe," says Jerry Weinstein, the company's head of refrigerator development. Such techniques are part of Mr Whitwam's effort to establish a "global mindset", which he believes is essential to the company's future.



Cold logic: fewer models could revolutionise production. Advertising Archives

© 1998 US WEST Media Group

USWEST
INTERNATIONAL

= **MediaOne**
International

ANNOUNCING THE NEW BUSINESS
for
GLOBAL COMMUNICATIONS EXPERTISE



Now US WEST International is also
known as MediaOne International.

And now there's another name for innovation
in telecoms in Europe and Asia.

In the UK, we introduced the world's first
PCN wireless service and the world's first
combined cable telephone service. We're
the same company that launched the first

and now the largest analog and digital
wireless services in Central Europe. And we've
introduced cable telephone services in five
international markets, including the world's
most highly penetrated cable markets.

So if you're looking for a new model for
success in international telecoms, look to the
one company with two names.

2000

TECHNOLOGY WORTH WATCHING

**Wider viewing angle
for LCD could lead to
compact screens**

A potential breakthrough in liquid crystal display technology could pave the way for lighter, more compact television screens.

Researchers at the Defence Evaluation and Research Agency in Malvern in the UK have managed to enlarge the viewing angle of the LCD screen without reducing its brightness, according to today's *Nature*, the International science journal.

As a result, they hope to increase the optical performance of LCDs to the point at which they could be used in desktop monitors and televisions. The technique does not require any additional electronic circuitry and so could be produced for little more than a conventional display.

Most LCDs use a "twisted nematic" configuration of liquid crystals. Applying an electric field turns the display black or clear by altering the tilt angle of the molecules. The snag with this approach is that the brightness depends strongly on the viewing angle.

The Dera scientists have found a way of inducing a voltage-dependent twist of the molecules. Relying on changes in the twist, rather than the tilt of the molecules, means the display does not suffer from restrictions in viewing angle. *Defence Evaluation and Research Agency: UK, tel (01684) 896550; fax (01684) 896530.*

**Satellites
aid study
of earthquakes**

Studying earthquakes has always been difficult because the plates of the earth's crust move so slowly. Now radio signals from global positioning satellites are making it possible to take accurate, up-to-date measurements of the plates' movements.

The geologists are able to measure the positions of markers thousands of miles apart to a precision of less than an inch. According to researchers at Northwestern University, Illinois, the GPS data allows geologists to study the slow squeezing within the interior of plates. It also makes it possible to study what is happening in zones along plate boundaries, where most earthquakes, volcanoes and geological action occur.

Northwestern University: US, tel 847/4913115; e-mail b-burton@nwu.edu

**The robot that
clears away
asbestos**

A crawling robot that can remove asbestos from the outside of pipes could be a faster and safer alternative to humans when it comes to cleaning up older buildings.

Researchers at Carnegie Mellon University in Pittsburgh believe that the robot, known as BOA, offers the first safe, economical, mechanical solution to the problem of removing asbestos insulation.

The machine can operate at a rate of 30ft per hour, which is about 10 times faster than a human operator.

The robot, which is operated by remote control, crawls along the outside of the pipes and "chews" off the insulating materials. The tiny, carcinogenic particles are captured using a fast-drying adhesive. The waste material is then sucked away by a vacuum hose.

The device was conceived as part of a robotics technology programme initiated by the Department of Energy to help decontaminate and clean up nuclear weapons sites and other polluted areas.

One of the main challenges was to build a sophisticated robot capable of handling hazardous material that was small enough to operate in a confined space.

Carnegie Mellon University: US, tel 412/2683630; http://www.cmu.edu/

**Infrared light
detects brain
damage in babies**

A technique to detect potential brain damage in premature or oxygen-starved babies has been developed at University College London, writes Tatjana Anderson.

The device overcomes the problems associated with assessing brain damage in new-born babies because they cannot stay awake and remain still for long periods of time while a brain scan is taken.

The device is placed on the baby's head and emits infrared light which passes through the baby's skin. It then detects how much of the light is absorbed by haemoglobin, the pigment in the blood which carries oxygen.

The baby is stimulated by visual images as the test takes place. It processes them using part of its brain at the back of its head, which can be monitored by the detector. The aim of the project, sponsored by the Action Research charity, is to build up a picture of a normal baby's visual development in order to assess differences that occur in premature babies.

Action Research: UK, tel (01403) 210406; fax (01403) 210541.

**Small-scale water
distribution systems
made cleaner**

A company on Merseyside in north-west England has developed a water disinfectant system using chlorine dioxide that is effective against amoebae and legionella and applicable in small-scale water distribution systems, writes Sheila Jones.

Activ-Ox: developed by Feedwater, releases high levels of chlorine dioxide by adding a weakly acidic liquid, allowing oxygen, rather than chlorine, to disinfect.

Chlorine dioxide is used mainly in specialist applications where chlorine is inappropriate, such as the treatment of municipal water supplies and in the drinks industry. Feedwater says its system can be used in smaller applications because of its use of weak acid and more controllable dosing system.

"Unlike chlorination, the process does not react with chemical compounds which can release harmful byproducts:

Feedwater: UK, tel (0151) 606 0808; fax (0151) 676 5459.

Vanessa Houlder

CINEMA

Punchy pugilism needs firm hands

Natural talent should be saved by the bell, argues Nigel Andrews

Some film-makers are described as "natural talents". But how much should nature and talent be trusted together? In British writer-director Shane Meadows's lively, uneven, sometimes downright maddening comedy-drama *TwentyFourSeven*, we keep wishing nature would get out of the way to let nurture in; that nurture would say firm things like "Get the tone right" or "Cut the choral music" or "For goodness' sake drop the DIY martyrdom motif".

This Midlands-set tale of a boy's boxing club, founded and run by do-gooder and ex-pugilist Bob Hoskins, is shot with perky immediacy in black and white. Meadows - more power to him - is no respecter of textbook film grammar. There is no orderly succession of master shot, medium shot, close shot. He just handwrites with the camera like the French New Wavers of old, who ran about the streets and coined the phrase "camerastyle".

He also has an off-the-wall, sometimes off-the-map, sense of humour. The boxers rounded up by Hoskins who aims to spread peace by training and gloving the neighbourhood's chief delinquents, are an often hilarious group of no-hoppers and/or no-brainers. Drug addict Fagash spends his evenings Swami-posed at home, reviewing his narcotic options. "Fat Tonka" is a boy with an eating disorder whose father wants to panic him into weight-loss. And

other members of the hall, maimed and mentally disadvantaged queas up to be cured by Hoskins's organised knockabouts.

At times *TwentyFourSeven*, which has been hugely praised at festivals, is like a comedy directed by a British Scorsese: fierce, punchy and with a rufous demotic humour. Meadows has a genius for the throwaway scene. Hoskins practising his chat-up speech for a shopgirl he fancies; a street

TWENTYFOURSEVEN
Shane Meadows

MOTHER AND SON
Aleksandr Sokurov

ANASTASIA
Don Bluth and Gary Goldman

BEST MEN

Tamra Davis

LES VOEURS

André Téchiné

quarrel on the subject of "spitting on your chips"; or more unnerving flashpoints when violence flares from nowhere, with a face slammed against a car's side or a domestic yelling match whose emotional toll is caught in the tiny, slow-motion postscript of a wife's drooping head.

Late on, though, the film goes almost completely to pieces. Meadows decides to up the ante, or the arty, and give Hoskins a tragic consummation. A man is killed in a drawn-out fist fight, stylised and archly sto-

tion'd to the sound of choir music, and Hoskins, dismoured for defending his kids, vanishes into a scrubby martyrdom, to be shaken out for final honours in the framing sequence.

At these moments *TwentyFourSeven* has the glutinous piety of a bad Children's Film Foundation feature. Hoskins himself ends up like some unthinking man's Robin Williams: a sainted bearded who can save us all, a "bad will hunter" who roots out wickedness and takes it Christ-like upon himself. That is the trouble with a natural talent like Meadows's. It can "naturally" turn to mush and message-mongering. What he needs is the benevolent intervention of a mentor. Is there a firm-minded producer in the house?

*

Aleksandr Sokurov's *Mother and Son* is at once powerful and inexplicable. Nothing happens for 74 minutes, yet at times we are gripped as by a great painting. That is what the film almost is. Limning the slender tale of a man's last hours spent caring for a dying mother - cradling her in bed, comforting her with memories, carrying her on a last "walk" into the countryside - the Russian director draws out time, space and perception so that we feel every breath, every scintilla of each.

But it is great cinema, as some have claimed, including filmmakers Tarkovsky and Paul Schrader? Or is it the filmic equivalent of a religious trance state fascinating but also alienating? In an old-masterly style which Sokurov says he based on Caspar David Friedrich but



Bob Hoskins in Shane Meadows's *TwentyFourSeven*; he ends up like some unthinking man's Robin Williams

which also evokes the sickly, retro piety of the Pre-Raphaelites. I grew increasingly sceptical while others grew increasingly impressed. See and make up your own mind, while the debate lasts.

Thanks to science, the "what if?" behind *Anastasia* has grown larger since this animated feature, the first from 20th Century Fox, went into production. It is no longer "What if the surviving Russian princess fled St Petersburg to a new life in Paris?", rather "What if we ignore the now conclusive evidence that she didn't survive at all but was shot with the other Romanovs?"

But why let history interfere with Hollywood? It seldom has before. Better the myth, which in this version by Don Bluth (*An American Tail* and *All Dogs Go To Heaven*) is a crazed waltz across strife-torn Europe, with garish colours, soap-bubble tunes and characters whose accents deepen the further down the cast list they go. While *Anastasia* and boyfriend Dmitri speak broad American, courtesy of Meg Ryan and John Cusack, Rasputin (Christopher Lloyd) is a Clivish snarler with an extended lease of melodramatic mortality, and Kelsey Grammer and Angels

Lansbury - con man and duchess respectively - also put their vowels and consonants through the Russian mangle.

As usual with Bluth, the funny bits are barely funny at all. Worst offender is Bartok the albino bat, scripted for hectic Yiddish asides. Like his master Rasputin, he should be sent to overacting jail, or at least be fed better lines. The film's finest moments are its earliest. Pre-1916 life at the Winter Palace is depicted as a bazaar of high patrician living - vast halls amid glittering chandeliers and sconces in rooms vaster and more frus-

coated than the Sistine Chapel - that suggests a combined heyday of the Sun King, Napoleon and William Randolph Hearst.

* *Best Men* and *Les Voleurs*, the week's piquant sweepings, are about troubled criminals on each side of the Atlantic. In the first, four men dressed for a wedding have their day ruined when a fifth pulls a bank robbery just before the service. The movie's plot goes from bad to worse - with sheriffs, FBI men and rhubarbing crowds - while director Tamra Davis (*Gun Crazy*) pulls off a spry, unpredictable black

comedy with much to say about male artificiosities.

André Téchiné's *Les Voleurs* has less to say but says it at greater length. A troubled cop (Daniel Auteuil); a dead brother's criminal legacy, including troubled son; and Catherine Deneuve, throwing herself from a window as a lesbian philosophy professor. Just when you think it can't get worse, it gets a little better. Téchiné, who made the wonderful *Les Roseaux Sauvages*, has overplotted this film. But it still has a fair complexity of character and thought, and a grace of image that can grow on you.

The mother of all Restoration comedy

THEATRE

ALASTAIR MACAULAY

The London Cuckolds
Royal National Theatre, London

Situation (my husband has unexpectedly returned...) which Feydeau took an hour to reach; and within the hour we have encountered two more such situations, each one ingeniously plotted and deliciously protracted. It keeps reminding us of comic situations already made familiar by playwrights from Plautus to Molière - and they are still

spitting on your chips"; or more unnerving flashpoints when violence flares from nowhere, with a face slammed against a car's side or a domestic yelling match whose emotional toll is caught in the tiny, slow-motion postscript of a wife's drooping head.

The larger joke underrunning this series of attempted adulteries is that the most determined of the play's three young gallants keeps being frustrated - one loses count of how many times before the play ends - and never once enjoys even one of the women who encourage his advances. Meanwhile his best chum seems virtually to trip into the women's bed by accident.

Each of the wives is different (one an urbane wit, one a country innocent, one apparently pious). None of this seems new, but all of it is enjoyable. Where the play is at its most original is in the extent to which the three old husbands remain in demand about the mounting evidence of their young wives' adulteries: cuckoldry proves better than fucking facts.

Only 20 minutes in, we are caught in the kind of classic farce

Johnson has directed his own adaptation, and he makes no pretence that the events before us are other than theatre. We see, in William Dudley's designs, characters before their entrances and after their exits; it is peculiar how well this succeeds.

A few characterisations are more formulaic than is necessary; some of the Restoration parlance sounds more theatrically over-emphatic than is convincing or fresh; and the production - its press night had been postponed a month due to an injury to Caroline Quentin, who plays the witty wife - is now so well "run in" that a couple of its actors have learnt to milk the laughs to excess here and there. Still, the ensemble and pacing are splendid.

Quentin is, because of TV (*Men Behaving Badly*, *Jonathan Creek*), the most famous actor in the cast. She is not, however, the most experienced or accomplished; indeed, anyone who watched more than one episode of *Jonathan Creek* will have seen her recycling the same half-a-dozen tricks of voice or face. Yet *The London Cuckolds* has extended her range, and only occasionally does she fall back on her more familiar tricks. (Biting her lip on one side, like a schoolchild, is my least favourite.) Since she played Goldoni's *Mirandolina* at the Lyric Hammersmith a few years ago, she has gained in style a good

deal, and she is an exemplary colleague. Best of all, she surprises you more as the play proceeds; at times in Act Two she yields a musical authority of voice at once hilarious and impressive.

Ben Miles also reaches a new high in his career as the perpetually randy and perpetually frustrated Ned Ramble; his raffish, scampish energy - even when he exaggerates a few moments of clowning - are a constant motor to the comedy. Alexander Hanson's virile charm could not be bettered in the role of Lovelady; this is an actor. Robin Soans, Sharon Small, William Chubb, and Hilda Braid are also very fine and often very fresh; and Kelly Reilly, Anthony O'Donnell, Nigel Lindsay, Charon Bourke, Ysobel Gonzalez are all highly engaging although in more standard sorts of ways.

I prefer Restoration comedy when it is played more truthfully than this, but there are more ways than one to skin a cat. Here, as Ned Ramble falls out of the tree in which he has been hiding and flattens a duck in the pool into which he falls and tries to restore it to life, all in a matter of seconds, you know you are watching very stock theatre indeed; and yet you laugh. I do, at any rate, heartily. And so many more.

In National Theatre repertory at the Lyttelton Theatre, London SE1.

An intimate spell in the underworld

OPERA

LUCIANO CHIANESE

Monteverdi's *Orfeo*
Teatro Goldoni, Florence

The heavily publicised re-opening of the Teatro Goldoni in Florence with Monteverdi's *Orfeo* is further proof that the arts are flourishing under Italy's centre-left government. The Goldoni's 27m restoration took 20 years to complete. Such a delay in state funding has been a common occurrence, but with the success that followed the opening of the Borghese Gallery in Rome last year and the flood of pilgrims expected for the 2000 Holy Year, it seems that government institutions are finally waking up to the fact that they are sitting on a potential gold mine.

Tucked into a narrow alley near the Pitti Palace, the Goldoni theatre was completed in 1817, along the lines of what can only be described as an early form of amusement centre, comprising an indoor theatre, an outdoor amphitheatre and a ballroom. Despite quickly establishing a reputation as one of the promi-

cent stages in Florence, the Goldoni entered a period of decline after Italian unification, before experiencing a brief moment of glory this century with Federico Fellini's staging of his *I Vitelloni*.

Given that Luca Ronconi's production of *Orfeo* was guaranteed to draw crowds, it came as a surprise to find half the theatre's seating capacity of 420 occupied by the stage, which covered the entire stalls. Both the singers, whose stylised movements were choreographed along with the rest of the cast, in such a way that the opera itself acquired the feel of a pastoral dance.

As for the future of the Goldoni, things remain unclear. For the 400th anniversary celebrations of the first musical drama written in Florence in 1598, three Monteverdi operas are scheduled to be performed elsewhere in the city under Ronconi's direction. The consortium managing the theatre, made up of the Fiesole Music School, the Orchestra della Toscana and the city council, has not yet drawn up a programme. The question is whether the bell set rolling with *Orfeo* will gather speed, or wind up in yet another tangle of bureaucracy.

As if conducting in two directions at once were not enough of a challenge, Jacobs opted for a full 35-instrument orchestra, including an organ and two continuos - half of them positioned in the pit and the others scattered up in the gods. The theatre was thus flooded with music from every angle.

With their predominantly Romanian backgrounds, Roberto Scacciari as Orpheus and Cecilia Gasdia as Eurydice coped admirably with the Spartan nature of Monteverdi's harmony. The purity of Gasdia's tone came out particularly well in her light, restrained ornamentation. Vibrato was kept in check by both the singers, whose stylised movements were choreographed along with the rest of the cast, in such a way that the opera itself acquired the feel of a pastoral dance.

As for the future of the Goldoni, things remain unclear. For the 400th anniversary celebrations of the first musical drama written in Florence in 1598, three Monteverdi operas are scheduled to be performed elsewhere in the city under Ronconi's direction. The consortium managing the theatre, made up of the Fiesole Music School, the Orchestra della Toscana and the city council, has not yet drawn up a programme. The question is whether the bell set rolling with *Orfeo* will gather speed, or wind up in yet another tangle of bureaucracy.

INTERNATIONAL

Arts Guide

AMSTERDAM

DANCE
Het Muziektheater
Tel: 31-20-551 8911
Dutch National Ballet: Romeo and Juliet. Rudi van Dantzig's 1987 version, created for the DNB and set to Prokofiev's score. With sets and costumes by Toer van Schayk; Mar 29; Apr 1, 2, 3

EXHIBITIONS
Stedelijk Museum
Tel: 31-20-5732211
Stuart Davis (1892-1964); survey of work by the American painter often seen as a link between American modernism, abstract expressionism and Pop Art. Deeply impressed by the painters of the European avant-garde, Davis was also influenced by Afro-American jazz, and made his mark with a series of still lifes on the theme of tobacco; ends on Sunday

www.netuno.it/ba/teatrocómicas
● Don Carlo: by Verdi.
Co-production with the Grand Théâtre de Genève, conducted by Elihu Inbal in a staging by Andre Serban; Mar 26, 29

● Le Cid: by Wolf-Ferrari. New production conducted by Bruno Bartolotti in a staging by Nanni Garella, with designs by Antonio Fiorentino; Mar 27, 28

CHICAGO
CONCERTS
Orchestra Hall
Tel: 312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: conducted by Daniel Gatti in works by Brahms. With violin soloist Samuel Magad; Mar 26, 27, 28

HELSINKI
EXHIBITION
Museum of Foreign Art, Sinebrychoff
www.fng.fi
Luxury: Gold and Jewellery of Portraits; 150 items including pendants, rings and bracelets, displayed to mark the 250th anniversary of the beginning of the

excavations; to May 31

LONDON

CONCERTS
Queen Elizabeth Hall
Tel: 44-71-980 4242
● The Tchaikovsky Experience: Roger Norrington conducts the Orchestra of the Age of Enlightenment in a weekend of concerts, using period instruments, intended to sound as historically accurate as possible. Saturday's programme includes extracts from *Sleeping Beauty* and *Piano Concerto No. 1*, with pianist Cyril Hahn. Sunday's programme includes Tatyana's Letter from Eugene Onegin with soprano Joan Rodgers, and the Pathétique Symphony. The weekend's activities include afternoon recitals by Huw and Rodgers, as well as talks and open rehearsals.

● Opera North: concert performance of Sondholm's *Sweeney Todd*. With the English Northern Philharmonic, conducted by James Holmes; Mar 26

Royal Festival Hall
Tel: 44-171-980 4242
● Philharmonia Orchestra: conducted by John Eliot Gardiner in works by Sibelius, Brahms and Kremer. With violin soloist Gidon Kremer; Mar 26

● Philharmonia Orchestra: conducted by John Eliot Gardiner in works by Elgar, Chopin and Dvorak. With piano soloist Maria Jose Pires; Mar 26

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 6300

● La Bohème: by Puccini. Steven Pimlott's production is reviewed by Barry Atkinson and Frances Moore, and conducted by Emmanuel Joel (Mar 26/Alex Ingram; Mar 27)

● The Tales of Hoffmann: by Offenbach. New production by Graham Vick, designed by Tobias Hohenschild and conducted by Paul Daniel/William Lacey. Cast includes John Tomlinson; Mar 26

Shaftesbury Theatre
Tel: 44-171-379 5359

The Royal Opera: Così fan tutte, by Mozart. Revival of Jonathan Miller's production, conducted by Colin Davis (David Syrus on 27 Mar); Mar 26, 27, 28

MADRID

EXHIBITIONS
Fundación "la Caixa"
Tel: 34-1-435 4833
1896, Fin de Siècle Spain: Daily Life. Historical exhibition designed to reconstruct a picture of life in Spain at the end of the last century. Includes books and newspapers as well as paintings; ends on Sunday, then transfers to Barcelona

NARA
EXHIBITIONS
Nara National Museum
Highlights of Asian Painting from Cleveland's Museum of Art: selection of 100 works from the 11th-19th centuries, from the CMA's holdings of Chinese, Japanese, Indian and Korean art; ends on Sunday

NEW YORK
OPERA
English National Opera, London Coliseum
Tel: 44-171-632 6300

Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org

● L'Elisir d'Amore: the final performance of the season is conducted by Maurizio Benini, with a cast including Ruth Ann Swenson; Mar 26

● Stiffelio: conducted by James Levine, with Maria Guleghina as Lina and Plácido Domingo as Stiffelio. The production is by Gian

COMMENT & ANALYSIS



PETER MARTIN

Grin without a cat

Cendant's plans for National Car Parks illustrate the growing trend towards the creation of dematerialised businesses

"All right," said the Cheshire Cat; and this time it vanished quite slowly, beginning with the end of the tail, and ending with the grin, which remained some time after the rest of it had gone.

"Well, I've often seen a cat without a grin," thought Alice; "but a grin without a cat! It's the most curious thing I ever saw in my life!"

— Lewis Carroll, *Alice in Wonderland*

On Monday, a company no one has ever heard of spent \$3.1bn buying an insurance company and \$200m on a carpark operator on two different continents.

Cendant's simultaneous purchase of American Bankers Insurance of the US and National Parking Corporation of the UK rests on what seems flimsy business logic.

Henry Silverman, Cendant's chairman, says the aim of the acquisitions is to provide his company's well-located marketing machinery with new products to sell to its existing customers. "When the same customer pays you more, there's no cost to that," he said. "All of that goes to the bottom line."

Perhaps — though the opportunities to cross-sell carparking spaces in Manchester to customers of Cendant's Coldwell Banker real estate brokerage in Florida must surely be limited.

Cendant may be a company in too much of a hurry. It took its present form only in December 1997 with the merger of two obscure service-business conglomerates, CUC and HFS. Still, it illustrates a powerful force in modern business.

This is not — pace Mr Silverman — the opportunity to cross-sell different types

of services to the same customers. That business practice was already a cliché when Elizabethan barbers first started pulling teeth and amputating limbs.

No, the genuine business innovation, which Cendant illustrates perfectly, is the dematerialisation of the company. Like Lewis Carroll's Cheshire Cat, the physical underpinning is vanishing, leaving only the distinctive mark — the brand, the grin — behind.

Hotel management, one of Cendant's key businesses, shows how this works. At one time, big hotel chains owned their own properties. Now the hotels are owned by outside investors, but managed by the chain that provides the name. Some brands — such as Cendant's Howard Johnson hotels — go further, by franchising out management as well.

National Car Parks, the carparking brand that Cendant is buying in the UK, also illustrates the trend. It was founded by two men who bought up British bomb sites cheaply after the

second world war. It was as much a property company as a service business. Nearly three-quarters of NCP's sites in the UK are owned or on long leases.

Cendant has no interest in property; it is likely to dispose of most of the sites. Instead, it will focus on the immaterial aspects of the business. The most valuable of these is the brand and the management system that backs it up to ensure adequate service. Cendant hopes to extend this to car parks owned by others: and to deepen it by cross-selling other services.

Service businesses are obvious candidates for dematerialisation, though some manufacturing businesses, especially in the computer industry, have followed the same route. But service businesses have an edge: they only need physical assets at the delivery point, and can farm that part of the value-chain out to others.

Indeed, some service businesses can even retreat from providing the service



peter.martin@FT.com

INVITATION

For submission of offers for the purchase of shares in the
BANK OF MACEDONIA AND THRACE S.A.
of Thessaloniki, Greece

The POST SAVINGS BANK, the NATIONAL INVESTMENT BANK FOR INDUSTRY & DEVELOPMENT S.A., the NATIONAL BANK OF GREECE S.A. and the ETHNIKI KEPHALOUI S.A. ADMINISTRATION OF ASSETS & LIABILITIES (the "Sellers") announce their intention to sell two million three hundred sixteen thousand three hundred and seventy two (2,316,372) common registered shares (the "Shares") in the BANK OF MACEDONIA AND THRACE S.A. (the "Bank") which represent 35.98% of its share capital.

To this end the Sellers invite prospective buyers to submit offers for the shares (the "Offers") according to the following:

The Bank

The Bank was established in 1979 and is based in Thessaloniki. Today, its share capital amounts to GRD 6,606,520,000 dividend into 6,284,000 common registered shares each having a nominal value of GRD 1,000. All shares are listed on the Athens Stock Exchange.

The Bank performs all banking activities as determined by the Greek Banking Law. According to its Articles of Association its activities should focus on the development of the regions of Macedonia and Thrace.

A brief description of the Bank and its activities is included in a relevant Memorandum (the "Offering Memorandum"). Interested parties may receive a copy of the above Memorandum together with a full file of information regarding the Bank activities from the Sellers Agent (as stipulated in paragraph 8), upon signing of a confidentiality letter.

Terms and Procedures

1. **Applicable Regulations:** The procedure for the submission of the Offers and the transfer of the Shares will take place according to the Resolution of the Board of the Athens Stock Exchange taken on 19 February 1998 as amended by the Resolution of the above Board taken on 19 March 1998 (the "Resolution of the Board of Athens Stock Exchange") and also according to this Invitation and the Offering Memorandum. By submitting an Offer prospective buyers are deemed to have fully accepted all such terms and conditions.

2. **Submission and Content of the Offers:** The Offers must be submitted according to the Resolution of the Board of the Athens Stock Exchange and the following conditions:

- The Offers must be submitted to the Board of the Athens Stock Exchange on the 10 April 1998 from 14:00 to 15:00.
- The Offers should be made for the whole lot of the offered Shares otherwise they will be rejected. Evidently, due to the nature and the conditions of the procedure this Invitation is addressed only to investors who act in the context of their professional/business activities and not to the general public.
- The total value of the Shares should be paid in cash upon the transfer of the Shares.
- All Offers should be accompanied by a confirmation of a Bank operating in Greece stating that the prospective buyer is able to pay for the value of the Shares. The above confirmation is not required if the prospective buyer is a Bank.
- The Offers should not contain any terms, conditions, reservation or dubious expressions which may create ambiguities in respect of the offered price or other matters relevant to the sale.
- The submission of improved or competitive Offers is prohibited.

3. **Additional Conditions:** The transfer of the Shares will be made under the condition that the buyer will be bound to comply for a period of two (2) years with the following conditions:

- Not to vote in favour of the change of the name of the Bank.
- Not to vote in favour of any proposal for the merger or the acquisition of the Bank by another entity.
- Not to transfer the acquired Shares.
- To preserve the existing employment (jobs).

To this end the buyer will sign a separate agreement. A draft of this agreement may be obtained from the Sellers' Agent as stipulated in paragraph 9.

4. **Appraisal and Acceptance of the Offers - Transfer of the Shares:** The Sellers will appraise the Offers and shall have the right, to their absolute discretion, to accept or to reject any Offer as provided for in the Resolution of the Board of the Athens Stock Exchange. The Resolution will also provide for the date of the transfer of the Shares. Furthermore, a relevant announcement will be published according to the Resolution of the Board of the Athens Stock Exchange.

The transfer of the shares will be effected on the Athens Stock Exchange through a manual block transaction (outside the automated exchange trade system) involving one or two brokerage firms according to the particular procedure that will be specified in the aforementioned notices.

5. **Approval of the Government's Privatization Committee:** The sale of the Shares is made according to the Resolution of the Government's Privatization Committee taken on 19.2.98.

6. **Approval of the Bank of Greece:** Prospective buyers should obtain the approval of the Bank of Greece in order to acquire the offered Shares.

7. **Approval of the Competition Committee:** Prospective buyers should, if necessary, obtain the approval of the Competition Committee.

8. **Declaration of the Sellers:** The Sellers declare that they do not possess any other Shares of the Bank of any voting rights as defined by Article 7 of presidential Decree 51/1992.

9. **The Sellers Agent:** For any communication or information or receipt of documents the Sellers designate as their representatives Mr. H. Horatios, Manager of the National Bank of Greece, Domestic Affiliates Division (address: 8, Karageorgis S. Str., 6th floor, tel.: +30-1-334.0391, fax: +30-1-334.0396) and/or Mr. C. Othonos (same address, tel.: +30-1-332.0323, same fax). Interested parties may contact the Sellers representatives in order to receive the draft of the agreement mentioned in paragraph 3 above and a copy of the Offering Memorandum after signing a confidentiality letter.

Wise
www.financewise.com
The Internet's only dedicated financial search engine
Powered by IBM

BUSINESSES
FOR SALE

Appears in the Financial Times every
Tuesday, Friday and Saturday. For
further information, or to advertise in
this section, please contact
Natalie Wedderburn on
+44 0171 873 4874

27/3/98

COMMENT & ANALYSIS

LETTERS TO THE EDITOR

Advent of the euro offers opportunity for change

From Mr Chris Ogden and Mr Paul Bradish

Sir, Lord Cobbold's view of the opportunity that the euro presents to commercial banks (Letters, March 23) is timely. Much of the debate so far has been on the difficulties the euro presents to UK business. Lord Cobbold rightly points out the opportunity side of the equation. However, businesses need to incorporate several other aspects of change into their euro planning.

The first is the internet. The average citizen will not become properly aware of the euro until notes and coins are introduced in January 2002 — four years from now. Four years is a long time in the evolution of the internet. By then, online commerce will have made important advances, and secure business-to-business and personal transactions over the internet using standard protocols will have become commonplace.

The second is the technology of payments. So-called "smart cards" will by then have become much more powerful, incorporating sig-

nature verification to combat fraud, currency conversion, and personal identification. Electronic cash technologies on the internet will, among other opportunities, enable small denomination payments to become economically viable.

It was an interesting coincidence that the same Financial Times carried a story in Inside Track ("The textbook that took off pre-launch") on a new book on finance by Robert Merton and Zvi Bodie. Their innovative thinking will be seen as signaling a sea change in the way financial products and services are designed. It is clear that planning for the opportunity side of the euro needs to be given a much wider context if businesses are to reap the benefit.

Chris Ogden,
director,
Future Business Lab.
Paul Bradish,
director - Euro Services,
DMR - a division of
Amdahl,
Heathrow Boulevard IV,
280 Bath Road,
Middlesex UB7 0DQ, UK.

US capitalism: a model worthy of emulation

From Mr Allan Wendt

Sir, John Gray raises the spectre of the American capitalist dream turning into a nightmare (Personal View, March 23) and, with some justification, takes US policymakers to task for over-confidence and triumphalism. Yet his many thoughtful arguments would be more convincing if he offered a realistic alternative to the American model.

The whole world is moving towards market capitalism if only because no better system has been identified, even though many have been tried. Yes, in the US there are winners and losers and inequalities and failures in public policy. But these problems exist in all systems. Winners and losers are the price that has to be paid for a system that, by all evidence, yields the greatest good for the greatest number.

On the latter point, does not the relatively high incidence of tax evasion by European citizens suggest serious social inequalities? Voluntary tax compliance is a good indicator of citizens' perception of fairness in a free society.

Here again, the American model (though not the egregious Internal Revenue Code itself) may be worthy of emulation in Europe.

Professor Gray really goes off the deep end when he

Swiss aim is European truck agreement to protect Alps

From Mr Francois Nordmann

Sir, I refer to your article "Swiss move towards truck charges system" (March 19). The Alpine region is under grave threat from the increase in road traffic. Switzerland has taken draconian measures to transfer Alpine traffic from road to rail. In exchange for the prohibition on trucks over 28 tonnes, it has undertaken to construct two trans-Alpine rail tunnels for the trains which will, from 2005, transport trucks from Biasio to Chiasso or vice versa.

To regulate the situation in the intervening period, an agreement was reached on

January 23 1998 between Switzerland, the European Commission and the EU presidency. Switzerland will progressively accept trucks of more than 28 tonnes but will impose a fiscal levy fixed at Ecu200 (SF235) on average, is about £130. This agreement was to be approved by the member states as part of the body of texts produced in the sectoral negotiations which have been proceeding between Switzerland and the EU since December 1994. Following the strong objections of one of the member states, it was not possible to reach a favourable decision at the council of the ministers of

transport on March 17. But the text of the agreement was accepted by a very large majority of states, with some expressing certain reservations. Switzerland considers that the EU needs more time to ratify the work of its negotiators — but the text remains on the council table.

Even if the treaty could have been definitively adopted, Switzerland would have brought into force fiscal measures for all trucks traveling on the Swiss road network (and not just the Alpine region), as agreed in the treaty of Porte between Switzerland and the EU.

Your correspondent speaks of a "collapse" in the

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers worldwide. Letters may be sent to +44 171 873 5938 (ext fax to 'Letters'), email: letters.editor@ft.com. Published letters are also available on the FT web site, <http://www.ft.com>. Translation may be available for letters written in the main international languages. Fax 0171 873 5938. Letters should be typed and not hand written.

PERSONAL VIEW TOM PETRI AND BERT ELY

A way out of bad banking

A private guarantee system for banks would have the benefits of current government supervision without its costly drawbacks

Government oversight of individual banks is not working.

In order to maintain the health of the banking system and to forestall losses to depositors, governments stand ready to support big banks against failure. There are advantages: this helps ensure the uninterrupted operation of the payments system and the smooth functioning of financial markets. But there is a serious drawback. By offering protection against the consequences of bad banking, government regulation helps inadvertently to encourage it.

Because of this protection, loan interest rates do not incorporate a sufficient risk premium. Hence, uneconomic projects are too easily financed, fostering speculative bubbles that inevitably burst. And when banking crises do occur, taxpayers must ride to the rescue.

The political reality is that many banks, as well as entire banking systems, are simply too big to fail. Yet their rescuers are not paid in advance for the risks they bear because government regulatory monopolies cannot properly price risk. Worse, this risk is not reflected, before the fact, in interest rates.

The frequency and growing magnitude of banking crises calls into question the conventional wisdom that only governments should supervise individual banks. After all, competitive markets produce better outcomes than government monopolies.

Moreover, one-size-fits-all rules, such as the Basle risk-based capital standards, constrain banking strategies. This in turn fosters banking homogeneity and the herd instinct that often leads to crisis.

Hence it is legitimate for governments to want sound banking in order to ensure systemic stability. And that task is increasingly important. As technology integrates banking with insurance and securities activities, the problems of systemic banking risk expand to encompass entire financial systems.

However, it is not axiomatic that public officials must directly ensure sound banking on a bank-by-bank basis. Private-sector companies and individuals who place their own capital at risk will be much more diligent in pricing and monitoring bank insolvency risks (which they have voluntarily assumed) than government bureaucrats, who do not have wealth at stake and who are rarely fired even after banking crises.

In principle, the idea of a "narrow bank" might address these concerns. Narrow banks would protect depositors and the payments system by investing only in very safe assets, such as government bills and high-grade commercial paper. Other forms of banking would be unprotected. This, though, would merely shift banking crises to the rescue.

The political reality is that many banks, as well as entire banking systems, are simply too big to fail. Yet their rescuers are not paid in advance for the risks they bear because government regulatory monopolies cannot properly price risk. Worse, this risk is not reflected, before the fact, in interest rates.

We therefore propose a new division of responsibilities between government and the private sector. Governments should remain responsible for ensuring systemic stability and for devising a mechanism to achieve that goal. But governments should delegate the supervision of individual banks to a new "cross-guarantee" system.

Under this system, an individual bank would negotiate a prudential regulatory contract with an ad hoc syndicate of voluntary guarantors, largely other banks. They would guarantee against loss of all the bank's deposits and other sources of funding, regardless of the currency in which that funding was denominated.

In return, the guarantors would receive a negotiated, risk-sensitive premium frequently adjusted to reflect changes in the guaranteed bank's riskiness. Premium formulas would be based on

leading indicators of banking risk, such as exposure to emerging speculative bubbles. Competitive pressures would force the inclusion of these premiums in loan interest rates, thus inhibiting the formation of bubbles. A private-sector "syndicate agent", selected by mutual agreement between the guaranteed bank and its guarantors, would monitor the bank's compliance with contractually specified prudential practices tailored to its business strategy.

So as to ensure systemic stability and to avoid Lloyd's-type problems, each cross-guarantee contract would have to conform with very safe assets, such as government bills and high-grade commercial paper. Other forms of banking would be unprotected. This would be the guarantors' responsibility. Instead, that would merely shift banking crises to the rescue.

As cross-guarantees would utilise market forces to produce superior banking performance, market forces would govern their expansion

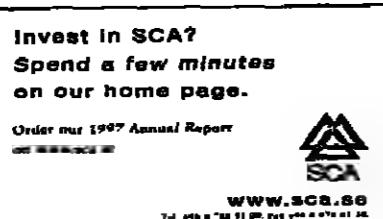
it would be to ensure that all bank insolvency losses were borne within the universe of guarantors. Closure of a failing bank would lie with its direct guarantors.

US Congress has before it legislation that specifies these risk-dispersion rules in detail. These rules also would permit the cross-guarantee system to act as its own lender of last resort.

This proposal would, in effect, privatise banking regulation. It may seem radical, but the irreversible impact of technology on financial services demands a change in regulatory philosophy. Existing government deposit insurance schemes have many elements of the cross-guarantee concept. Our proposal merely privatises these schemes.

Market forces harnessed through freely negotiated contracts can transcend traditional industry boundaries as well as nation-state borders. A cross-guarantee contract, enforceable in a reliable jurisdiction, could encompass all of the liabilities and monetary commitments of the bank.

Mr Petri is



FINANCIAL TIMES

THURSDAY MARCH 26 1998

THE LEX COLUMN

Italian lessons

Is Italy the sick man of Europe? Sniping about its high public debt levels by the likes of the Dutch central bank suggests just that. But, ironically, Italy could be better placed to thrive under the new single currency than some other countries.

How can this be? Simply because success under monetary union will stem less from the macroeconomic convergence required by the Maastricht Treaty and more from microeconomic flexibility. For all its faults – and there are many – Italy is adaptable. This quality is most obvious in its small and medium-sized businesses. But it is also evident in the country's willingness to embrace foreign economic ideas. The same cannot be said for France, for example, which likes to do everything the Gallic way.

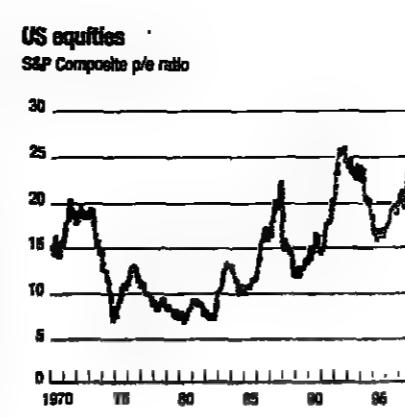
Talk of Italian adaptability may sound strange given the government's plans for a 35-hour week. Certainly, this is a retrograde step: the labour market is where greater flexibility is needed most. That said, the actual scheme is fairly toothless. Nobody will be stopped working over 35 hours; there will just be a token tax.

More worrying is the political pressure now mounting to pour yet more cash into the south of Italy. The *mezzogiorno* – with its uneconomically high wage levels and organised crime – is Italy's real Achilles' heel. What is needed is a crack-down on the Mafia and a change in culture to wean the population off state aid, not more dollops of subsidy.

The Prodi government is addressing other weaknesses. The state is being slimmed through aggressive privatisation, the rigid distribution system is being liberalised and corporate governance reformed. Italy still has much to learn. But the rest of Europe also has much to learn from its capacity to learn.

US equities

The latest sign of Wall Street's overvaluation is that the price/earnings ratio has shot into record territory. The S&P Composite now trades on a multiple of over 27 – overtaking the previous record of 26 set in 1922. Only three times in the past 30 years has the ratio risen above 20. The first two examples – before the bear market in the early 1970s and on the eve of the 1987 crash – are obviously disturbing. But the 1922 example is not that encouraging either. There was no crash then, but it was just as the economy was



coming out of a recession so earnings were low and expected to rise rapidly. Such a lofty multiple is harder to justify seven years into an upswing.

That, of course, does not stop bulls stamping to do so. The main point is that we live in an era of low inflation and low interest rates, stable growth and high quality corporate earnings. On top of that, it is argued, there is an increasing appetite for equities as ageing populations save for their retirement. There is undoubtedly some truth in all this. And it does justify some upward valuation of equities compared with historic norms.

But there are clouds on the horizon. Without the Asian financial crisis, the US Federal Reserve would already have raised interest rates. Furthermore, high earnings expectations may not yet have fully factored in the impact of the Asian slowdown. The record p/e ratio does not mean a correction is imminent, but it does increase the risk.

Volkswagen

The phone war for the hand of Rolls-Royce Motors is drawing to a close. Volkswagen confirmed yesterday it had sent in its bid, and on time. That was enough to prompt BMW to break cover and assert that it may bid soon. The opportunity to buy a superb brand does not come round that often. And given that Volkswagen now has the cash to indulge its expansionist strategy, its interest comes as no surprise. Shareholders, however, could be forgiven for fearing nervous. One question is whether Volkswa-

gen needs to add to its already ambitious range. A bigger concern is that Volkswagen could end up overpaying. BMW supplies engines and important components for the new generation of Rolls-Royce, and Volkswagen would struggle to match these cost advantages. If Volkswagen does beat BMW to the prize, it could face tough competition should BMW choose to launch its own luxury car. Of course, Volkswagen may be playing a canny game. BMW may be lulled into complacency by its perceived advantages over Volkswagen, and underbid. But the chances of Volkswagen picking up Rolls-Royce on the cheap look slim. Indeed, that possibility might be enough to tempt Mercedes-Benz back into the fray.

Africa

Will Bill Clinton be tempted to take a flitter on Africa? He and the first lady have not in the past been averse to a speculative punt, and Africa remains a great gambling outpost. But is it a *bonne fide* investment destination? It is not, after all, the last undiscovered (by investors) continent for nothing. Almost uniquely in the world, most Africans are worse off than 30 years ago. And foreign direct investment flows fell 10 per cent in 1997.

President Clinton, however, detects a "new Africa". In some ways he is right. Politically, there is a new generation of leaders who represent an encouraging breath of fresh air. Economically there is progress too: growth, inflation and government deficits are pointing in the right direction while advances are also being made in liberalising economies. These developments constitute a respectable investment case. For a dollar-based investor, Africa has handsomely outperformed overall emerging markets in recent years. Depending on the time frame, it also compares favourably with the US market.

Generalisations, of course, are dangerous: Ghana has recently been excellent, Zimbabwe and Kenya poor. How should investors proceed? First, favour countries such as Ghana where leaders have the authority to pursue tough policies. Second, manage downside risk by buying reputable names. Local listed subsidiaries of groups like Standard Chartered and Unilever combine emerging market growth potential and cheaper valuations with the security of parent company practices.

China takes measures to spur sluggish economy

By James Harding and James Kyng in Beijing and John Riddiford in Hong Kong

China has cut the reserve requirements for state banks and reduced interest rates to ease credit and spur growth in an economy showing signs of fatigue.

The moves are the first evidence of a new wave of activism in the management of China's slowing economy since Zhu Rongji took over as prime minister last week.

His government yesterday released details of a bold programme to overhaul the bank reserve system, aimed at releasing fresh funds to recapitalise China's troubled state banks and encourage a recovery in bank lending to help reinvigorate domestic demand.

The People's Bank of China, the central bank, also cut the lending rates that can be charged by commercial banks by an average of 0.8 percentage points and deposit rates by just 0.16 percentage points in an attempt to ease the debt burden on struggling state-owned companies.

The reserve requirements, governing how much commercial banks are

obliged to keep on deposit at the central bank, were cut from between 16-20 per cent to 8 per cent of total bank deposits.

The PBOC calculated that at the end of 1997 the state banks' total deposits amounted to Yn8.240bn (£1.000bn). Economists in Beijing estimated the cut would, in theory, release Yn250bn for use by the banks.

China's gross domestic product grew by 8.8 per cent last year, a touch below original government forecasts. There is concern that the country will struggle to achieve this year's growth target of 8.0 per cent as the effects of Asia's financial crisis erode exports and inward investment.

By no means all the funds freed by the cut in the reserve requirement will be available for lending. The big four state commercial banks must set aside Yn277bn to buy a "special bond" issue from the finance ministry. This is aimed at recapitalising a banking system which some economists say is technically insolvent.

The commercial banks are expected to use the proceeds of the

reserve requirement cut to repay at least some of their debts with the central bank, which the Economic Daily, the official newspaper, estimates at Yn357bn.

Wang Xuebing, chairman of the Bank of China, said the reserve requirement cut would help stimulate lending, some of which could be directed towards housing. Last week, Mr Zhu identified the commercialisation of the large state housing sector as an engine of growth in an economy losing momentum.

The modest interest rate reduction, the fourth since May 1996, brought the interest on six-month loans to 7.02 per cent from 7.65 per cent. Interest on one-year loans fell to 7.92 per cent from 8.64 per cent.

The rate cut caught investors by surprise, prompting a rally in international listings of Chinese companies. H-shares, the Hong Kong listings of mainland state enterprises, jumped 5.5 per cent. The "red chip" index, which tracks the shares of Hong Kong subsidiaries of mainland companies, rose 1.4 per cent.

Editorial Comment, Page 11

US revises view on sanctions for groups dealing with Iran

By Bruce Clark in Washington

The US is rethinking its attitude to sanctions against European and Asian companies that invest in Iran's energy sector, a senior US official said yesterday.

The statement by Jim Steinberg, deputy national security adviser, was the first public confirmation of a new caution in US deliberations on whether to penalise Iran's partners and incur the risk of a transatlantic trade war.

Mr Steinberg said "important and relatively new factors" had emerged in the policy debate over Iran in the past few weeks – notably the Asian financial crisis and the fall in international oil prices.

The US administration wanted to avoid taking the grave step of imposing penalties on the French, Russian, Malaysian and Canadian companies planning investments in Iran if the contracts were likely to die a natural death, he added.

"This is an important and difficult decision, not something we would

want to do if it is entirely academic," Mr Steinberg told a briefing organised by USA Today newspaper.

Since the autumn, the US administration has been considering whether to penalise the partners in two contracts with Iran: a \$2bn gas deal signed by Total of France, Gazprom of Russia and Petronas of Malaysia; and a \$150m oil deal signed by Bow Valley of Canada and Indonesia's Bakrie Minaruk.

Bow Valley has said it is looking for alternative partners in view of the Indonesian economic crisis.

The Iran-Libya Sanctions Act (ILSA), passed by US legislators who are concerned over Tehran's repressive efforts and alleged support for terrorism, provides for sanctions against any company investing more than \$20m in Iran's energy sector.

So far, the administration has resisted pressure from Congress to declare these deals in formal breach of the law, but it has also rebuffed European Union demands for a general waiver from ILSA penalties.

Mr Steinberg said sanctions

against Iran's partners were "not a tool of first resort" and the administration would prefer to work constructively with European and Asian governments in a joint effort to persuade Iran to change its behaviour in areas of importance to us".

His comments added to speculation that the US would avoid making any formal statement on a breach of law, at least until the second half of May – after the summit of the Group of Seven industrialised nations in Birmingham, England.

But the White House official also made clear Washington's continuing determination to discourage the construction of pipelines through Iran and avoid giving Iran a dominant position in energy flows through the region.

US officials have expressed the fear that if Iran becomes the main conduit for energy from the Caspian region, it will restrict the flow for either commercial or strategic reasons.

Putting down ripples, Page 6

A landmark transaction for a company in the Russian Federation.

This advertisement appears as a matter of record only.



OAO Uralmash Zavody

US\$36,758,613

Tender Offer for 4,299,253 shares

Issued at US\$8.55 per share

Arranger and Domestic Advisor
FC Petroleum Investment House

Bookrunners

Robert Fleming & Co. Limited CentreInvest Securities Limited

October 1997

FLEMINGS

Robert Fleming & Co. Limited
Tel: (44-171) 638-5858
Fax: (44-171) 382-8414

CentreInvest Securities Limited

CentreInvest Securities Limited
Tel: (7-095) 564-8290
Fax: (7-095) 564-8299

Issued by Robert Fleming & Co. Limited, a member of The London Stock Exchange and regulated by the SFA.

CONTENTS

News	Features
European News	12
American News	14
International News	15
Asia-Pacific News	16
World Trade News	17
UK News	18
Weather	19

Analysis	11,12
Crossword Puzzle	24

Companies & Finance

European Company News	15,16
American Company News	14
International Capital Markets	18

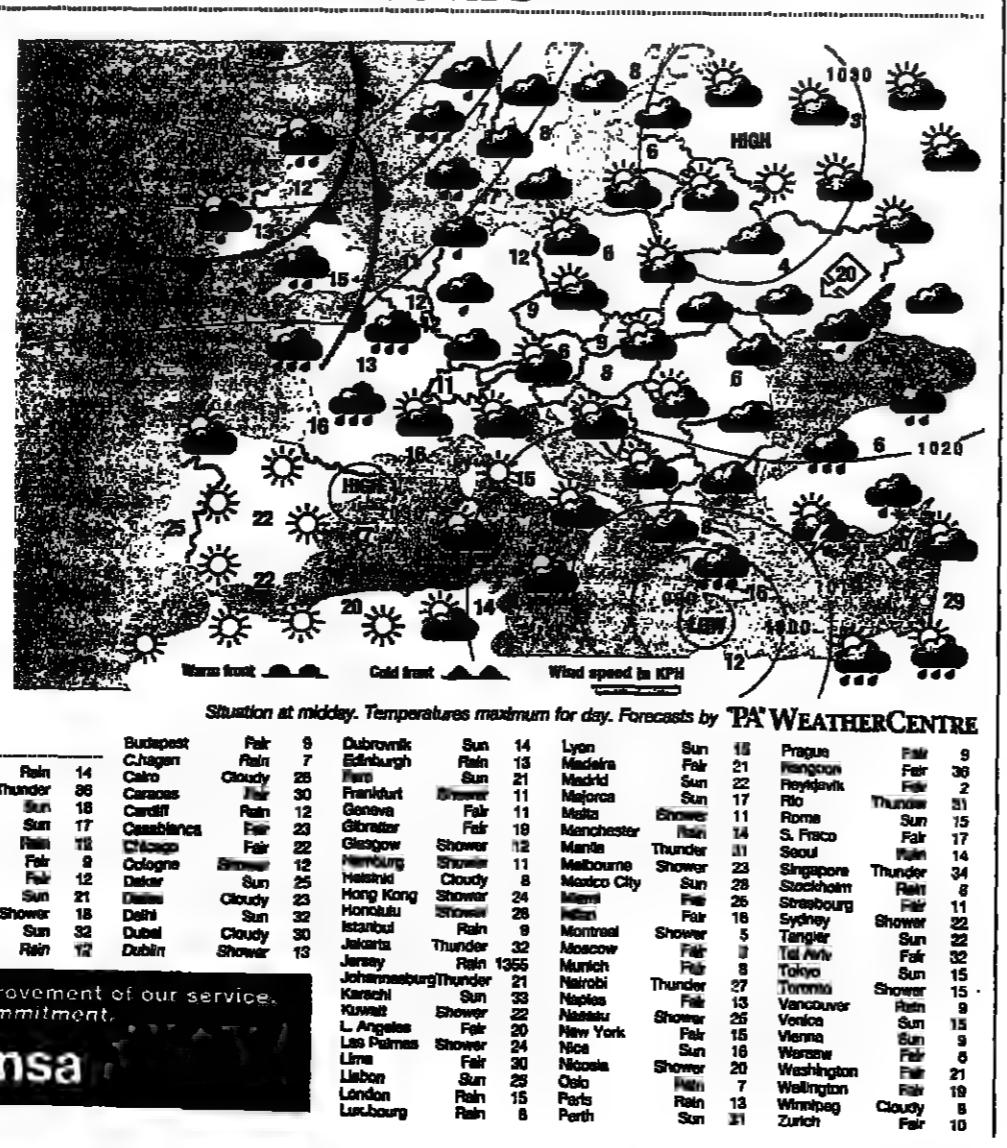
Markets

Bonds, bond futures and options	22
Short term interest rates	23
US interest rates	22
Currencies	23
Money markets	23
FTSE/AKS-A World Indices	21
World stock markets reports	24
World stock market listings	21
London share service	28,29
FTSE Annual Reports Service	20
Recent issues, UK	30
Dividends announced, UK	21
Managed funds service	25-27
Commodities	24
FTSE Gold/Mines Index	30

Survey

Japan Financial Revolution	Section II
ME privatisation	Section IV

FT WEATHER GUIDE



Europe today

Much of eastern Europe will be dry with some sun although it will be cold. South-east Europe will have another disturbed day as low pressure continues to dominate. Showers and spells of heavy rain are expected and it will be cold enough for snow in upland areas. North-west Europe and most of Scandinavia will be unsettled with rain but the south of France, the Alpine states and eastern Germany will stay dry. The western Mediterranean will have warm sunshine.

Five-day forecast
South-east Europe will become more settled. Central and north-east Europe will also be settled with high pressure dominating. Western Scandinavia and the northern half of the British Isles will stay changeable but the rest of north-west Europe will become mainly fine. Western Spain and Portugal will turn showery over the weekend.

TODAY'S TEMPERATURES

Madrid	18	Barcelona	14	Lyon	18	Prague	9
Copenhagen	7	Edinburgh	13	Paris	21		

asures to
conomy
Sanctions
with Iran

1500 flights
a week.
British Midland
The airline for Europe

FINANCIAL TIMES
COMPANIES & MARKETS

© THE FINANCIAL TIMES LIMITED 1998

THURSDAY MARCH 26 1998

Week 18

20 European
destinations.
British Midland
The airline for Europe

INSIDE

Deutsche Post may take DHL stake
Deutsche Post, the sprawling, state-owned German postal service, hopes to take a 22.5 per cent stake in DHL International, the express courier service that serves locations outside the US. Deutsche Post's increasingly commercial outlook has come about partly because of the liberalisation of European postal markets and preparations for its stock market listing in 2000. It is also reacting to the planned European single currency, which has accelerated the evolution of continent-wide businesses. Page 15

Canada set for telecoms shake-up
Canada's telecommunications industry is in upheaval after Telus, the Alberta-based local telephone company, confirmed it was in talks to form a "business combination" with AT&T Canada Long Distance Services. Such a combination could herald a wave of consolidation in the sector, which comprises 11 local telephone service providers and several long-distance competitors. The fragmented industry cannot match economies of scale in other countries. Page 20

GEC eyes spoils of blocked merger
The blocking of the merger of US defence groups Lockheed Martin and Northrop Grumman opens up huge new opportunities for General Electric Company, the UK electronics and defence group. With a euro-denominated credit facility for E&G (\$6.5bn) and a cash pile of about £1bn (£1.67bn), it could hope to buy some Lockheed and Northrop businesses, at least. It might even bid for Northrop. Page 21

Bufete going through a bad patch
Nothing seems to be going right for Bufete Industrial, Mexico's second largest construction company. The country is on its biggest infrastructure development drive in decades, but last year the three main government contracts – worth about \$3.75bn – slipped through Bufete's fingers. Its best client, oil monopoly Pemex, has had to re-think because of the drop in oil prices. And last week, Juan Alberto Zepeda Novelo, Bufete's pointman for oil development projects, was jailed on money laundering charges. Page 18

OPEC rises on news of Opec meeting
World oil prices rose after the Organisation of Petroleum Exporting Countries confirmed it would meet next week to approve cuts in production. The emergency conference, to be held in Vienna on March 30, is expected to ratify the agreement reached in Riyadh at the weekend. Page 24

Yen advances on intervention talk
The yen rose against the dollar, helped by talk that the Bank of Japan might intervene to support its currency when the latest Japanese fiscal stimulus package appears today. The package is expected to be worth about ¥10.000bn (577bn), while some temporary tax cuts may be made permanent. Page 22

Zambian project loses Falconbridge
Zambia's hopes of reviving its copper industry, which is its biggest employer and accounts for about 90 per cent of its foreign currency earnings, suffered another blow when Falconbridge of Canada pulled out of the Konkola project. It is the third mining group to quit the \$800m venture, following Gencor of South Africa and Australia's WMC. Page 24

COMPANIES IN THIS ISSUE

3Com	20 Mercury Energy	14
ABC Communications	14 Memorex	18
AT&T Canada LDS	20 Merrill Lynch	20
Acer	14 Metro Pacific	18
Acth-Ox	8 Microsoft	20
Alcan	20 Mitsubishi Electric	14, 15
Alcoa	20 Monsanto	20
Algas Energy	14 Natskis	18
America Online	20 Netscape Comms	20
Apple Computer	20 News Corp	4
Argentaria	15 Norsk Hydro	20
Argos	18 Norsk Skog	18
BCE	21 Northrop Grumman	20
BDB	20 Peugeot	18
BMC Industries	4 Pitfall	18
BMW	20 Pohjola	18
BSkyB	1 Price Waterhouse	18
Bank Austria	4 Rekam	21
Banques Populaires	16 Reynolds	20
Barclays	16 RhineMetall	18
Bell Canada	21 Rhône-Poulenc	18
BellT	20 Rolls-Royce Motors	1, 12
Buñols Industrial	20 SAP	18
CSFB	20 SE-Banken	18
CVG	20 Sampo	18
Coopers & Lybrand	16 Shin Contaihers	21
Creditanstalt	16 Shaw Cable	20
DHL	15 Shin Ho Paper	18
Daimler-Benz	1 Sino Land	14
Deutsche Post	15 Smart	15
EasyJet	21 SocGen Asset Mgt	15
Euro Disney	18 Socité Générale	12
Ford	14 Stentor	20
Frank Russell	15 TEA Switzerland	21
GEC	21 Tarmo	21
Goldman Sachs	20 Telefónica	13
Henderson Land	14 Teleglob	20
Hyundai	14 Telus	20
INA	15 Trygg-Hansa	18
Imatec	20 UBS	18
Israel Corporation	18 Vickers	1
Kia Motors	14 Volkswagen	16, 1, 12
LB Kiel	16 Wal-Mart	20
Lehman Brothers	20 Whirlpool	8
Lockheed Martin	20 Yahoo!	20
LucasVarity	21 Zim	18

CROSSWORD, Page 24

MARKET STATISTICS

Annual reports service	26, 28 FTSE Actuaries share index	30
Benchmark Govt bonds	22 Foreign exchange	23
Bond futures and options	22 Gilts prices	22
Bond prices and yields	22 London share service	28, 29
Commodities prices	24 Managed funds service	25, 27
Dividends announced, UK	21 Money markets	23
EMS currency rates	22 New Int'l bond issues	30
Eurobond prices	22 Recent issues, UK	22
Food interest indices	22 Short-term Int'l rates	31
FTSE & A World indices	31 Stock markets at a glance	30
FTSE Gold mines index	30 US interest rates	20
Emerging Market bonds	22 World stock markets	31

EUROPEAN FILM INDUSTRY FRENCH BANK SEEKS TO CASH IN ON REVIVAL

SocGen to set up film finance unit

By Alice Rawsthorn

Société Générale, the French banking group, will today launch a London-based film financing division to take advantage of the revival of the European film industry.

The launch follows the announcement yesterday that the UK government plans a wide-ranging overhaul of film policy to encourage foreign film groups to increase their investment in the UK and to forge closer links between the film production sector and institutional investors.

The new SocGen unit will be run by Premilla Hoon, head-hunted from Guinness Mahon, the London-based merchant bank where she was head of media and entertainment.

A prominent figure in UK film finance, Ms Hoon, 44, helped to finance 80 films, including *Howard's End*, *The Crying Game* and *Wild*, in 11 years with Guinness Mahon.

Guinness Mahon has stepped up its investment banking studios are strengthening their presence in Europe.

Ms Hoon, as head of media for SocGen's project and sectoral finance group, said she will concentrate initially on developing its film finance interests. She declined to comment on how much SocGen plans to make available for film finance but said the financial resources available would be far greater than at Guinness Mahon.

Several large European media and entertainment groups have either diversified into film or are expanding their existing interests. PolyGram, the Dutch music group, has invested more than \$1.2bn in the past seven years to establish a Los Angeles-based film subsidiary. At the same time, many Hollywood movie

studios are strengthening their presence in Europe.

They will work closely with Bannon & Co, SocGen's Los Angeles-based banking subsidiary that specialises in the entertainment sector. Bannon recently advised PolyGram on its acquisition of a library of 1,000 films formerly owned by Crédit Lyonnais.

Stephen Fry, left, starring in *Wild*, one of the films Premilla Hoon helped to finance while head of entertainment at Guinness Mahon



Stephen Fry, left, starring in *Wild*, one of the films Premilla Hoon helped to finance while head of entertainment at Guinness Mahon

S&P 500 records highest p/e ratio

By John Labate in New York

Recent rises in US stocks have carried the price/earnings ratio on the S&P 500 index to its highest recorded peak, sparking fresh debate about whether the US market is trading at dangerously high levels.

"What we're showing now is a price/earnings multiple of above 27 for trailing 12-month earnings with no adjustments for write-offs," said David Blitz, chief economist at Standard & Poor's in New York. The ratio is calculated by dividing share prices, as measured by the S&P index, by earnings. In the past, notably in the early 1970s and in 1987, a high p/e ratio was followed by a heavy market fall.

The issue of valuations has long caused deep division on Wall Street. But the US bull market has thrown the debate into sharper relief, now that the Dow Jones Industrial Average is nearing the 9,000 level and the S&P 500 is above 1,100. If earnings disappoint, such lofty levels could be met with rapid selling by investors.

However, many analysts are unconcerned about current valuations. "You can't look at p/e multiples in a vacuum," said Alfred Goldman, chief market strategist at A.G. Edwards in St. Louis. "You have to look at them in relation to interest rates." With the long bond trading at a yield below 6 per cent, Mr Goldman and many others believe valuations can continue at current levels, and could go higher. Underpinning the market is the solid state of US economic fundamentals, with growth strong and inflation subdued.

Analysts prefer to calculate valuations using forward, rather than trailing, earnings, although according to IBES, the information group, that ratio is also at its highest since the second world war.

Compounding the valuation worry is the record low level of dividend yields, at 1.44 per cent, according to the latest S&P estimates. The bull market has also forced down dividend yields in the UK to their lowest levels since records began. However, instead of paying higher dividends, many US companies have opted for stock repurchase programmes. This is more tax-efficient for shareholders than dividend payments.

Lex, Page 12

Mitsubishi Electric chief quits after loss

By Michiyo Nakamoto in Tokyo

The president of Mitsubishi Electric (Melco), one of Japan's leading integrated electrical manufacturers, is resigning after the company recorded a loss and passed its second-half dividend.

Melco's shares rose nearly 5 per cent to ¥338 (\$2.53) on the news.

Takashi Kitaoka, president for six years, will step down in June after Melco, last month forecast a group net loss of ¥70bn for this year, compared with a profit of ¥8.5bn last year.

Mr Kitaoka will be replaced by Ichiro Taniguchi who has been in charge of the company's defence electronics and aerospace businesses.

Mr Kitaoka had faced criticism for his failure to resign after the company recorded a loss and passed its second-half dividend.

Melco is expected to implement a wide-ranging restructuring, including the closure of several factories overseas.

"Further restructuring is needed both overseas and in Japan, not only to cut back operations but to strengthen

those businesses where we have strength and to halt businesses that are not good," Mr Kitaoka said. "We will bring out all the rot at once, especially foreign factories, which have been making losses."

As a result, the company is likely to post an extraordinary loss in the next fiscal year beginning in April. Substantial cumulative losses will remain, Mr Kitaoka said.

Melco has already closed a semiconductor manufacturing plant in the US – believed to be the first such closure by a Japanese company – and a colour TV plant. The cost of over-

seas restructuring is ¥80bn. Melco is also considering pulling out of the household PC business in the UK and Japan to focus on the corporate market.

Mr Kitaoka blamed the sharp downturn in the semiconductor and home electronics markets for the company's difficulties. Mitsubishi was slow to shift to advanced semiconductor technology and has been losing money in the division. It was also badly hit by the downturn in purchases of air conditioning units in Japan because of a mild summer.

Executives indicated that

the company planned to shift its focus from D-Rams to systems-on-a-chip semiconductors that incorporate both memories and microprocessors.

They said D-Ram technology would go towards building that business, in which Melco has an edge over competitors.

Defence electronics and aerospace businesses will also be core operations, Mr Taniguchi indicated. But "we may be forced to withdraw from areas where Mitsubishi Electric has low market share or where the business is not solid", he said.

Executives indicated that

Mitsubishi seeks repart, Page 14

Singapore launches \$1bn convertible bond

By Vincent Boland

Singapore yesterday launched the biggest convertible bond out of Asia with a \$1bn issue exchangeable into shares of Singapore Telecom (SingTel), the city state's dominant telecommunications carrier.

The five-year issue, which bankers said was "healthily oversubscribed", is a significant test of investor sentiment towards Asia's crisis-hit economies. It is also fresh evidence of the popularity of convertible bonds, one of the biggest growth areas in international capital markets this year.

Singapore benefits because it is perceived as being the most stable place in the region, and Singapore Telecom is the blue chip in the market," he said, adding that the bond was more than twice as big as the next largest Asian issue.

The bond was issued by Temasek Holdings, the Singapore government's holding company and investment arm. The total size of the issue will

rise to \$1.15bn if a "green-shoe" or over-allotment option is exercised, depending on the level of final demand for the bond.

The bond will be convertible into SingTel shares at a price of \$63.35 each, a premium of just over 8 per cent on yesterday's closing price of \$62.12. Some 80 per cent of the Singapore bond was sold to international investors, with the rest going to Asian accounts.

If the entire issue is converted into shares, it will see the state's stake in SingTel reduced by three percentage points. The company was privatised in late 1993 but the state remains its controlling shareholder.

The advantage of the convertible bond route for the authorities in Singapore is that

they have raised \$1bn in five years, signals an aggressive phase of acquisition activity. It includes a stake in WorldCom's European operations, a joint \$200m plan for a high-speed fibre optic network linking the US and Canada with central and south America.

Shareholders last week authorised the company to raise capital by up to 12.5 per cent, but it was not expected to move so quickly.

The capital increase is in line with the ambitious stance adopted early this month when Telefónica signed an alliance with MCI WorldCom of the US for a high-speed fibre optic network linking the US and Canada with central and south America.

Telefónica chairman, Juan Villalonga, "Going on the attack"

abandoning of planned ties between the Spanish group and British Telecommunications. It includes a stake in WorldCom's European operations, a joint \$200m plan for a high-speed fibre optic network linking the US and Canada with central and south America.

Telefónica said it was looking at "potentially relevant investments" in Latin America and especially the privatisation process in Brazil, where it already manages a regional operator.

Shareholders last week authorised the company to raise capital by up to

COMPANIES & FINANCE: ASIA-PACIFIC

PERSONAL COMPUTERS TAIWANESE GROUP HELPED BY STRENGTH IN CORE BUSINESS

Acer shrugs off chip weakness to climb 22%

By Laura Tyson in Taipei

Acer, one of the world's biggest personal computer makers, performed solidly last year, helped by strength in its core business and despite troubles at its memory chip arm.

The Taiwanese group yesterday posted a 22 per cent rise in 1997 net profits to

T\$3.74bn (US\$115m) on sales up 21 per cent at T\$69.74bn.

The company plans to issue a dividend of T\$2 a share for 1997 and expects to launch a euro-convertible bond and global depository receipts this year.

Acer has set a 1998 net profit target of T\$5.5bn, up 47 per cent from 1997. Its sales target for the year is

T\$88bn, an increase of 26 per cent from 1997.

The convertible bond issue will raise as much as T\$8bn with the funds supporting a planned capital increase and the operations of Acer Semiconductor Manufacturing, formerly known as Texas Instruments-Acer.

Acer took control of the unit earlier this month when

it bought out the 33.34 per cent stake held by joint-venture partner Texas Instruments, the US chipmaker. TI-Acer, a dynamic random access memory (DRAM) chipmaker, had suffered from heavy losses because of oversupply in the memory chip sector.

Stan Shih, chairman of Acer, said the company would

enable Acer to shift away from DRAMs into more profitable areas such as foundry, or made-to-order, production.

The company said it would this year issue 150m shares in global depository receipts. The plan has to be approved at a shareholders' meeting on May 20.

The Acer board yesterday agreed to lift a cap on invest-

ments in China from US\$25m to US\$100m to expand an existing investment project in the Chinese province of Guangdong.

The board has also decided to revise the company's charter to increase its capital from T\$22bn to T\$22bn in line with its planned expansion and issuance of convertible bonds.

NEWS DIGEST

KOREA

Kia Motors says Ford is against Hyundai bid

Kia Motors yesterday claimed its single largest shareholder, Ford Motor, of the US, was opposed to a proposed takeover bid of the bankrupt South Korean carmaker by Hyundai Motor.

Kia made the comments after holding discussions with Paul Drivak, head of Ford's Asia-Pacific operations; on future co-operation, Ford holds a combined 17 per cent in Kia along with its Japanese partner, Mazda. Ford has been negotiating with Samsung Motor on a strategic partnership, including a possible joint bid for Kia, which went bankrupt last year.

Kia, Korea's third largest carmaker, has opposed any takeover bids by either Hyundai or Samsung and Ford. It is awaiting a court decision on receivership, which would allow it to negotiate its debts instead of liquidating its assets.

Kia is hoping to survive through a debt-for-equity swap with its biggest creditor, the state-run Korea Development Bank, while gaining new business by providing cars on an original equipment manufacturing basis to Ford.

Meanwhile, Hyundai Motor yesterday established an executive task force to plan a Kia takeover. Hyundai said its absorption of Kia would make one of the world's top 10 car companies, with an annual production capacity of 2.5m vehicles. John Burton, Seoul

HONG KONG TELECOMS

ABC sale hits SmarTone shares

Shares in SmarTone, the Hong Kong mobile phone operator, fell more than 8 per cent yesterday after one of its shareholders sold down a 12 per cent stake.

ABC Communications (Holdings), a Hong Kong paging and internet company, raised some HK\$1.1bn (US\$151m) from a private placement of 55.82m shares in SmarTone. The shares were sold at HK\$20.80, a 3.38 per cent discount to the latest 10-day average closing share price of HK\$21.32 before the deal was executed on Tuesday night. SmarTone's share price slid from HK\$22.80 to HK\$21.40 yesterday.

ABC Communications, which retains a 0.8 per cent holding, reported a profit of HK\$758m from the placement. The placement was carried out by Goldman Sachs (Asia). Louise Lucas, Hong Kong

AUSTRALIAN ENERGY

Counter-bid hopes lift Algas

Shares in Algas Energy, an Australian natural gas distributor and equipment supplier, surged yesterday on speculation that Texas Utilities, the US energy company, would counter an A\$204m (US\$137m) takeover offer by Boral, the energy and construction materials group.

Boral, which has an 11.8 per cent stake in Algas, said yesterday it would offer A\$1.75 for every Algas ordinary share, representing a premium of A\$1.50, or 8.7 per cent, over the existing bid by Texas Utilities' local arm. Algas shares jumped A\$1.01, or 5.6 per cent, to A\$19.01 on speculation that Texas would lift its bid. Gwen Robinson, Sydney

Mitsubishi Electric looks for renewed performance spark

The resignation of the company's president highlights need for radical surgery, write Paul Abrahams and Michiyo Nakamoto

Takashi Kitao, president of Mitsubishi Electric, yesterday figuratively fell on his sword. After apologising for the company's poor performance while under his control, he resigned.

The scale of the group's underperformance during Mr Kitao's six-year reign is hard to underestimate. This year, Mitsubishi Electric will post a loss and pass its second-half dividend for the first time in more than 50 years. Since January last year, the shares have plunged more than 50 per cent. They have lost 70 per cent of their value since their peak in 1989.

Mr Kitao's replacement, Ichiro Taniguchi, was blunt about what needed to be done. "Today we announce the beginning of a new Mitsubishi Electric. The path we must travel is clear."

That path, according to Mr Taniguchi, includes expanding strong operations and consolidating loss-making businesses. "On behalf of our shareholders, employees and customers, we must stay focused on the future and return Mitsubishi Electric to profitability as quickly as possible," he said.

In the short term, Mr Taniguchi's clarity of vision may reassure long-suffering investors. Yesterday, the shares bounced back 5 per cent. But in the long run, investors will need more than rhetoric to convince them that this diversified manufacturer of industrial, consumer and heavy equipment is capable of doing anything other than destroying value.

Their scepticism is given added weight by the fact that Mr Kitao, formerly viewed as a reformer, diagnosed most of Mitsubishi Electric's problems more than two years ago. But this cumbersome conglomerate refused to swallow the medicine he prescribed.

"Since I became president in 1992, I have tried to transform the culture of Mitsubishi Electric and prepare the company for the 21st century," Mr Kitao said yesterday. Insiders say his efforts founders because he failed to rally internal support. That was partly because the company had become lazy, counting on related groups such as Mitsubishi Estate and Mitsubishi Motors to buy its products without question.

Similarly, the consumer electronics operation - which ranges from microwave ovens to vacuum cleaners - has endured lacklustre demand. Scott Foster, industrial electrical machinery analyst at ING Barings in Tokyo, estimates half the



Ex-president Takashi Kitao: his medicine was refused

group's Y70bn (US\$87m) losses this year will be generated by consumer electronics.

But the biggest problem has been semiconductors, where the damage has been mostly self-inflicted. "In 1994, we posted Y20bn in net profits and I thought that things would be all right," said Mr Kitao. As a result, between 1994 and 1997, Mitsubishi Electric's semiconductor division invested Y405bn in new capacity, mostly on new generation 64-megabyte DRAMs.

"But then the semiconductor market was badly hit and our development of

advanced 64-megabyte DRAMs backfired," he said.

The legacy of that explosion in semiconductor investment is that Mitsubishi Electric's net debt-to-equity ratio mushroomed from just 40 per cent in March 1995 to 130 per cent this year. This year the group will be unable to cover interest charges with cash flow, according to Mr Foster.

So far, the company's response to the crisis has been feeble. Company executives have been reduced to praying for hot weather to stimulate additional demand

for air-conditioners. The company has already shut down colour television assembly facilities in the US and Malaysia, as well as an obsolete 4-megabyte DRAM facility in Malaysia. But nearly all the cuts have been overseas. As Mr Kitao admitted, domestic restructuring has yet to begin.

Some action is in the pipeline. The semiconductor division announced yesterday it was cutting capital expenditure from its peak of Y123bn in 1996 to just Y50bn this year. That should also help reduce the group's huge depreciation charges.

But much more radical surgery is required. Mr Taniguchi will need to abandon the group's traditional, employment-oriented management style, while demonstrating a commitment to shareholder value so far lacking. To do so will require a revolution in Mitsubishi Electric's culture. It will be no easy task.

Strong sales drive 33% rise at Sino Land

By Leslie Lucas in Hong Kong

Sino Land, the Hong Kong property developer, yesterday reported a 33 per cent rise in net profits at the interim stage, from HK\$764.89m in the six months to December 1997 to HK\$1.01bn (US\$130m) for the same period last year.

Results, which were ahead of expectations, were boosted by strong sales. At HK\$3.16bn, these were 58 per cent ahead of sales for the whole of the previous year.

However, the group also made provisions of HK\$400m against falls in the value of investments. Sales are set to remain robust as the group disposes of developments rather than retains them for rental. High interest rates and credit squeezes among lenders in the territory have forced companies such as Sino Land to focus on cash flow.

Concerns that Sino Land, one of the more aggressive developers, could be vulnerable to the downturn in the

property sector arose in January. The company's share price fell 45 per cent to HK\$4.91 in one day after it moved to quash rumours that it had missed a loan payment.

However, the share price has bounced back and yesterday closed 4.5 per cent higher at HK\$4.025. Property stocks performed strongly yesterday after Tuesday's government land auction, at which two plots fetched higher than expected prices. The buyer of the biggest plot

offered this week was Nan Fung Development, a private property company which disclosed earlier this month that it had built up a 10 per cent stake in Sino Land.

Sino Land said yesterday it had seen a revival of buying interest from end-users in the first two months of the year. However, The Mayfair, a prestigious block of 60 flats, is being sold off at about two-thirds of the price that might have been achieved at the peak of the market last year.

Robert Ng, chairman, said there were signs that prices had bottomed out and stability had returned. "The flexible land sale programmes and the new tax incentive granted to mortgage borrowers will create a positive market environment conducive to sales of residential units," he said.

Earnings per share at the halfway stage rose 20 per cent, from 26 cents to 33.5 cents, but the dividend is being maintained at 10 cents.

Net earnings fell 28 per cent, from HK\$85.32bn (US\$857m) in the six months to December 31, 1996 to HK\$63.84bn for the same period last year. Henderson, in line with other developers, has been discounting prices for its new flats.

Although no new big developments were completed during the period, a large tranche of units was sold, which brought stock down to "an extremely low level". The group replenished its land bank, buying additional sites with a total area of 1.06m sq ft during the interim period.

As it is one of the more conservatively geared developers, analysts are less concerned by the impact of the current tight credit environment on Henderson - particularly in recent weeks as interest rates have begun to

Henderson Land loses ground in Hong Kong

By Leslie Lucas

Depressed sentiment in the Hong Kong property sector took its toll on one of the territory's biggest property developers, as Henderson Land Development saw its interim profits tumble.

Net earnings fell 28 per cent, from HK\$85.32bn (US\$857m) in the six months to December 31, 1996 to HK\$63.84bn for the same period last year. Henderson, in line with other developers, has been discounting prices for its new flats.

The group remained cautiously upbeat, saying that if coming development sales were satisfactory there would be "large amounts of cash inflow and abundant capital".

Henderson Investment, an associate company, saw interim net profits slide 18 per cent, from HK\$98.32m to HK\$73.42m.

Earnings per share fell from 32 cents to 26 cents but the dividend is to be maintained at 13 cents.

The company built up its portfolio of holdings in "red chips" or mainland-backed companies, which have seen

their share prices plunge from their highs around the time of Hong Kong's handover to Chinese sovereignty. Henderson said the market value was above the book value at December 31.

Henderson China, the separately listed unit which holds the group's mainland activities, saw its net earnings almost halved, from HK\$161.96m to HK\$89.57m.

Earnings per share more than halved, from 46 cents to 20 cents, but the dividend is being maintained at 12 cents.

The decline in profits was attributed to a sluggish property market.

By Terry Hall in Wellington

Mercury Energy, the electricity company responsible for the power crisis that caused blackouts in Auckland, New Zealand's biggest city, for five weeks, faces heavy repair bills and potentially costly compensation claims.

Power supplies are expected to reach more normal levels next week when workers finish constructing an emergency 15km series of cables into the inner city. The crisis began when the four aged cables that supplied the city failed. This disrupted business and the retail sector, and forced many companies to relocate to other cities, notably Wellington, at considerable cost.

Newspaper reports suggest that Mercury Energy had been told the cables urgently needed replacement. However, it had apparently gambled that they would survive until the company had com-

pleted laying new transmission lines under the city sometime next year.

Allegations that Mercury had failed to carry out proper maintenance have become a political issue in Auckland. The company has been operating under a structure imposed by the central government in Wellington under which a majority of directors were effectively appointed by a local law firm. They were able to outvote representatives of local civic trusts, who represented the majority of the company's share holders.

Mercury began a controversial and aggressive wave of takeovers against neighbouring power companies, and critics - including Jenny Shipley, prime minister - say the company should have looked after the needs of its consumers rather than embarked on expansion. Mrs Shipley has told Aucklanders to "sue" until the company had com-

pleted the work. The government says it is in a strong financial position. The government says the company's corporate structure - which was designed to facilitate a flotation - will be addressed, but any flotation is now likely to be at least two years away. Standard and Poor's, the ratings agency, has cut Mercury's credit rating.

Before the crisis Mercury had been expected to lift earnings by 8 per cent to NZ\$130m (US\$73m), with most of the profits earmarked as rebates to customers.

Preliminary estimates say the first stage of the company's compensation to residential and smaller consumers will cost at least NZ\$75m. Larger sums are likely to be claimed by companies forced to relocate or close. Estimates suggest it will cost at least NZ\$40m for emergency work to restore power.

PSA PEUGEOT CITROËN 1997 FINANCIAL RESULTS • OBJECTIVES AND PRIORITIES

On March 24, the Supervisory Board reviewed the financial statements of PSA Peugeot Citroën, as closed by the Managing Board. The statements are in line with the estimated financial results presented and analyzed in the press release published on February 12.

1997 FINANCIAL RESULTS

The loss before income taxes amounted to FF 3,504 million. Excluding exceptional items and changes in valuation methods, this item amounted to income of FF 381 million.

The net loss before minority interest came to FF 2,497 million, while the net loss for the year totalled FF 10,246 million.

Working capital provided from operations amounted to FF 10,891 million, or 5.8% of sales. Gross capital expenditure was stable at FF 10,246 million.

At FF 1,866 million, net indebtedness of the manufacturing and marketing companies was reduced by FF 7,009 million during the year, primarily due to the surplus of working capital provided from operations over capital expenditure for the year and the sharp reduction in working capital requirement. After fully consolidating the finance companies, the Group had a consolidated net cash position of FF 4,812 million.

Consolidated shareholders' equity amounted to FF 32,999 million at year-end, or FF 1,058 per share. Based on the non-reporting nature of the exceptional items weighing on 1997 earnings and the outlook for 1998, the Managing Board will ask shareholders at the Annual Meeting on June 3 to approve the payment of a dividend unchanged from last year at FF 3.00 per share (FF 4.50 including tax credit). If approved, the dividend will be paid as of June 10, 1998.

OBJECTIVES AND PRIORITIES

Internationally, the objective remains to generate 25% of sales from outside western Europe, with a focus on the Mexican countries in Latin America, eastern and central Europe and selected countries in Asia. Major steps towards achieving this goal include the development of closer ties with Sevel Argentina, the start-up of construction on a plant in Brazil, the strengthening of dealer networks in central and eastern Europe and the continued development of operations in China and Malaysia.

The new platform strategy is aimed at accelerating the reduction in vehicle cost prices, capital expenditure and the time-to-market cycle. The number of PSA Peugeot Citroën platforms will be reduced from seven to three, while production facilities will gradually be converted according to the new concept, with each of the six main plants dedicated to a single platform. The merger of Ets and Bertone Faure confirms the Group's strategy of developing a strong presence in the automotive equipment business. It will create a world-class group with leadership in each of its businesses and the critical mass needed to ensure its development. The first effect of these measures will lift consolidated operating margin to at least FF 5 billion in 1998.

The Managing Board has already undertaken its first action plan. The new organization implemented in January expresses a strategic focus on two broadline marques with strong personalities, offering a closer fit between their line-ups and emphasizing product innovation to drive market share gains. In Europe, the two critical markets will be France and Germany.

SUMMARY CONSOLIDATED FINANCIAL RESULTS

PROPERTY INSURANCE GROUP BRANCHES OUT

INA seeks partner for new venture

By James Bisset in Rome

INA, Italy's second largest insurance group, is looking for an international partner in the field of property to help develop a residential and commercial property company it set up this week.

In a bid to develop what would become one of Europe's largest property companies by book value, INA is searching for an international group willing to take a stake of up to 10 per cent in the newly expanded Unione Immobiliare SpA. It holds property with a book value of about £5,000m (£2.75bn).

Like Benassi, INA managing director, said yesterday that he planned to launch Unione Immobiliare on the Milan stock exchange before the end of this year.

About 60 per cent of the group's shares are to be held by existing INA shareholders, including leading banks and credit institutions such as San Paolo, IMI and Cariplo.

However, the INA group's holding company, INA SpA, is planning to sell its stake of up to 20 per cent over the next 18 months.

In general terms, it is looking to sell part of its stake through a public share offer. The remaining portion will be sold through a private placement to a strategic partner willing to help develop the new company.

Argentaria plans internal merger

By Tom Burns in Madrid

Argentaria, the fourth-ranked Spanish banking group, which was recently privatised, said yesterday it planned to merge its main unit to realise latent capital gains, reduce operating costs and lift its competitive edge.

The bank also plans to reduce the nominal value of its shares to track rival banks which have broadened their equity holder base through stock splits.

Argentaria's shares rose by Pta600 yesterday to close at Pta13,300 - a rise of 6.4 per cent on a day when the overall market rose 1.8 per cent.

Francisco González, Argentaria chairman, has pledged to raise the group's return on equity (ROE) from a low 10.8 per cent to 15 per cent by the end of 1998. In his bid to compete with more profitable domestic banks, he is seeking to lower Argentaria's ratio of operating costs to operating income from 58 per cent to 50 per cent by 2000.

The move involves the absorption by Corporación Bancaria de España, the Argentaria group's holding company, of Banco Exterior, Caja Postal and Banco Hipotecario. The three units,

which form the group's core retail banking business and operate 1,700 branches among them, will form just one bank named Argentaria, offering common products to a single client base.

The bank's retail muscle has been further strengthened by an agreement with Spain's PTT that allows Argentaria to provide banking services through 1,700 post offices for an initial 10-year period. A regional subsidiary, Banco de Alicante, based in the south-east, could be incorporated when Argentaria completes a takeover bid for the 5 per cent of the unit it does not own.

The merger will not include three specialised divisions: Banco Directo, which operates a telephone banking network; the merchant banking arm, Banco de Negocios; and Banco de Crédito Local, financing municipal corporations.

Analysts believe the merger will allow Argentaria to declare capital gains of Pta100bn (£644m) through revaluation of assets at Caja Postal, a former Post Office savings bank. These gains were not declared when the unit was one of six state-controlled financial institutions brought together under the Argentaria umbrella in 1991.

SocGen, Russell in funds venture

By Jane Marthinson, Investment Correspondent

Société Générale Asset Management, which is owned by the French bank, has joined Frank Russell, the US consulting firm, to offer multi-manager funds in continental Europe.

The joint venture is designed to take advantage of the shift from traditional banking relationships to dedicated asset management in Europe, where the business is dominated by large financial services groups. Multi-manager funds, rare outside the US, offer investors the opportunity to put money into a range of asset classes using different managers.

Len Brennan, head of Russell's international operations, said the "market is right" for the new service as retail investors, high net worth individuals and institutional investors are looking for alternatives to traditional managers.

The consultancy currently manages \$38bn, mostly in the US, with 50 different managers. Its initial list for continental European clients will, perhaps surprisingly, not include SocGen.

Mr Brennan said the managers were chosen under strict guidelines and the joint venture did not give SocGen, which manages \$125bn for external clients, any advantages.

"The whole way multi-manager works is that Frank Russell has total independence in the selection of money managers," he said.

Russell has increased its fund management business on the back of joint ventures with large financial organisations in Canada, Australia and South Africa.

The group is keen to launch a similar tie-up in the UK.

Russell started its first multi-manager fund 18 years ago. The aim of the service is to reduce risk and volatility, partly by diversifying through a range of styles.

Mr Brennan said the group's first fund - which is now worth \$7bn, has outpaced the Russell 1000, its benchmark index, by 200 basis points a year over the past 10 years.

The new venture - to be called SG/Russell Asset Management - will operate within a Dublin-based offshore fund.

COMPANIES & FINANCE: EUROPE

German delivery for DHL

Change is forcing Deutsche Post to act, writes Ralph Atkins

Before his death in an air crash three years ago, the entrepreneur Larry Hillblom lived a colourful lifestyle from his south Pacific island home.

He probably never dreamt his shares in the DHL express courier service he co-founded three decades ago in San Francisco would end up with Deutsche Post, the sprawling, state-owned German postal service.

But yesterday Deutsche Post confirmed that it has huge assets and capital and no debt," he said. "But we badly need to get people who know about real estate management and can develop the business."

Mr Benassi's comments followed a decision this week to transfer most of INA's property holdings to Unione Immobiliare SpA. It holds property with a book value of about £5,000m (£2.75bn).

Like Benassi, INA managing director, said yesterday that he planned to launch Unione Immobiliare on the Milan stock exchange before the end of this year.

About 60 per cent of the group's shares are to be held by existing INA shareholders, including leading banks and credit institutions such as San Paolo, IMI and Cariplo.

Mr Benassi admitted that the Italian property market had been in the doldrums in recent years, not least because of laws fixing rents that are only gradually being relaxed. He said he was looking for a partner that could pump liquidity into the group amid fears that many of the existing shareholders are from the financial services sector and lack a fundamental commitment to property.

Mr Benassi's comments followed a decision this week to transfer most of INA's property holdings to Unione Immobiliare SpA. It holds property with a book value of about £5,000m (£2.75bn).

Like Benassi, INA managing director, said yesterday that he planned to launch Unione Immobiliare on the Milan stock exchange before the end of this year.

About 60 per cent of the group's shares are to be held by existing INA shareholders, including leading banks and credit institutions such as San Paolo, IMI and Cariplo.

Mr Benassi admitted that the Italian property market had been in the doldrums in recent years, not least because of laws fixing rents that are only gradually being relaxed. He said he was looking for a partner that could pump liquidity into the group amid fears that many of the existing shareholders are from the financial services sector and lack a fundamental commitment to property.

Mr Benassi's comments followed a decision this week to transfer most of INA's property holdings to Unione Immobiliare SpA. It holds property with a book value of about £5,000m (£2.75bn).

Like Benassi, INA managing director, said yesterday that he planned to launch Unione Immobiliare on the Milan stock exchange before the end of this year.

About 60 per cent of the group's shares are to be held by existing INA shareholders, including leading banks and credit institutions such as San Paolo, IMI and Cariplo.

Mr Benassi admitted that the Italian property market had been in the doldrums in recent years, not least because of laws fixing rents that are only gradually being relaxed. He said he was looking for a partner that could pump liquidity into the group amid fears that many of the existing shareholders are from the financial services sector and lack a fundamental commitment to property.

Mr Benassi's comments followed a decision this week to transfer most of INA's property holdings to Unione Immobiliare SpA. It holds property with a book value of about £5,000m (£2.75bn).

Like Benassi, INA managing director, said yesterday that he planned to launch Unione Immobiliare on the Milan stock exchange before the end of this year.

About 60 per cent of the group's shares are to be held by existing INA shareholders, including leading banks and credit institutions such as San Paolo, IMI and Cariplo.

Mr Benassi admitted that the Italian property market had been in the doldrums in recent years, not least because of laws fixing rents that are only gradually being relaxed. He said he was looking for a partner that could pump liquidity into the group amid fears that many of the existing shareholders are from the financial services sector and lack a fundamental commitment to property.

Mr Benassi's comments followed a decision this week to transfer most of INA's property holdings to Unione Immobiliare SpA. It holds property with a book value of about £5,000m (£2.75bn).

Like Benassi, INA managing director, said yesterday that he planned to launch Unione Immobiliare on the Milan stock exchange before the end of this year.

About 60 per cent of the group's shares are to be held by existing INA shareholders, including leading banks and credit institutions such as San Paolo, IMI and Cariplo.

Mr Benassi admitted that the Italian property market had been in the doldrums in recent years, not least because of laws fixing rents that are only gradually being relaxed. He said he was looking for a partner that could pump liquidity into the group amid fears that many of the existing shareholders are from the financial services sector and lack a fundamental commitment to property.

Mr Benassi's comments followed a decision this week to transfer most of INA's property holdings to Unione Immobiliare SpA. It holds property with a book value of about £5,000m (£2.75bn).

Like Benassi, INA managing director, said yesterday that he planned to launch Unione Immobiliare on the Milan stock exchange before the end of this year.

About 60 per cent of the group's shares are to be held by existing INA shareholders, including leading banks and credit institutions such as San Paolo, IMI and Cariplo.

Mr Benassi admitted that the Italian property market had been in the doldrums in recent years, not least because of laws fixing rents that are only gradually being relaxed. He said he was looking for a partner that could pump liquidity into the group amid fears that many of the existing shareholders are from the financial services sector and lack a fundamental commitment to property.

Mr Benassi's comments followed a decision this week to transfer most of INA's property holdings to Unione Immobiliare SpA. It holds property with a book value of about £5,000m (£2.75bn).

Like Benassi, INA managing director, said yesterday that he planned to launch Unione Immobiliare on the Milan stock exchange before the end of this year.

About 60 per cent of the group's shares are to be held by existing INA shareholders, including leading banks and credit institutions such as San Paolo, IMI and Cariplo.

Mr Benassi admitted that the Italian property market had been in the doldrums in recent years, not least because of laws fixing rents that are only gradually being relaxed. He said he was looking for a partner that could pump liquidity into the group amid fears that many of the existing shareholders are from the financial services sector and lack a fundamental commitment to property.

Mr Benassi's comments followed a decision this week to transfer most of INA's property holdings to Unione Immobiliare SpA. It holds property with a book value of about £5,000m (£2.75bn).

Like Benassi, INA managing director, said yesterday that he planned to launch Unione Immobiliare on the Milan stock exchange before the end of this year.

About 60 per cent of the group's shares are to be held by existing INA shareholders, including leading banks and credit institutions such as San Paolo, IMI and Cariplo.

Mr Benassi admitted that the Italian property market had been in the doldrums in recent years, not least because of laws fixing rents that are only gradually being relaxed. He said he was looking for a partner that could pump liquidity into the group amid fears that many of the existing shareholders are from the financial services sector and lack a fundamental commitment to property.

Mr Benassi's comments followed a decision this week to transfer most of INA's property holdings to Unione Immobiliare SpA. It holds property with a book value of about £5,000m (£2.75bn).

Like Benassi, INA managing director, said yesterday that he planned to launch Unione Immobiliare on the Milan stock exchange before the end of this year.

About 60 per cent of the group's shares are to be held by existing INA shareholders, including leading banks and credit institutions such as San Paolo, IMI and Cariplo.

Mr Benassi admitted that the Italian property market had been in the doldrums in recent years, not least because of laws fixing rents that are only gradually being relaxed. He said he was looking for a partner that could pump liquidity into the group amid fears that many of the existing shareholders are from the financial services sector and lack a fundamental commitment to property.

Mr Benassi's comments followed a decision this week to transfer most of INA's property holdings to Unione Immobiliare SpA. It holds property with a book value of about £5,000m (£2.75bn).

Like Benassi, INA managing director, said yesterday that he planned to launch Unione Immobiliare on the Milan stock exchange before the end of this year.

About 60 per cent of the group's shares are to be held by existing INA shareholders, including leading banks and credit institutions such as San Paolo, IMI and Cariplo.

Mr Benassi admitted that the Italian property market had been in the doldrums in recent years, not least because of laws fixing rents that are only gradually being relaxed. He said he was looking for a partner that could pump liquidity into the group amid fears that many of the existing shareholders are from the financial services sector and lack a fundamental commitment to property.

Mr Benassi's comments followed a decision this week to transfer most of INA's property holdings to Unione Immobiliare SpA. It holds property with a book value of about £5,000m (£2.75bn).

Like Benassi, INA managing director, said yesterday that he planned to launch Unione Immobiliare on the Milan stock exchange before the end of this year.

About 60 per cent of the group's shares are to be held by existing INA shareholders, including leading banks and credit institutions such as San Paolo, IMI and Cariplo.

Mr Benassi admitted that the Italian property market had been in the doldrums in recent years, not least because of laws fixing rents that are only gradually being relaxed. He said he was looking for a partner that could pump liquidity into the group amid fears that many of the existing shareholders are from the financial services sector and lack a fundamental commitment to property.

Mr Benassi's comments followed a decision this week to transfer most of INA's property holdings to Unione Immobiliare SpA. It holds property with a book value of about £5,000m (£2.75bn).

Like Benassi, INA managing director, said yesterday that he planned to launch Unione Immobiliare on the Milan stock exchange before the end of this year.

About 60 per cent of the group's shares are to be held by existing INA shareholders, including leading banks and credit institutions such as San Paolo, IMI and Cariplo.

Mr Benassi admitted that the Italian property market had been in the doldrums in recent years, not least because of laws fixing rents that are only gradually being relaxed. He said he was looking for a partner that could pump liquidity into the group amid fears that many of the existing shareholders are from the financial services sector and lack a fundamental commitment to property.

Mr Benassi's comments followed a decision this week to transfer most of INA's property holdings to Unione Immobiliare SpA. It holds property with a book value of about £5,000m (£2.75bn).

Like Benassi, INA managing director, said yesterday that he planned to launch Unione Immobiliare on the Milan stock exchange before the end of this year.

About 60 per cent of the group's shares are to be held by existing INA shareholders, including leading banks and credit institutions such as San Paolo, IMI and Cariplo.

Mr Benassi admitted that the Italian property market had been in the doldrums in recent years, not least because of laws fixing rents that are only gradually being relaxed. He said he was looking for a partner that could pump liquidity into the group amid fears that many of the existing shareholders are from the financial services sector and lack a fundamental commitment to property.

Mr Benassi's comments followed a decision this week to transfer most of INA's property holdings to Unione Immobiliare SpA. It holds property with a book value of about £5,000m (£2.75bn).

Like Benassi, INA managing director, said yesterday that he planned to launch Unione Immobiliare on the Milan stock exchange before the end of this year.

About 60 per cent of the group's shares are to be held by existing INA shareholders, including leading banks and credit institutions such as San Paolo, IMI and Cariplo.

Mr Benassi admitted that the Italian property market had been in the doldrums in recent years, not least because of laws fixing rents that are only gradually being relaxed. He said he was looking for a partner that could pump liquidity into the group amid fears that many of the existing shareholders are from the financial services sector and lack a fundamental commitment to property.

Mr Benassi's comments followed a decision this week to transfer most of INA's property holdings to Unione Immobiliare SpA. It holds property with a book value of about £5,000m (£2.75bn).

Like Benassi, INA managing director, said yesterday that he planned to launch Unione Immobiliare on the Milan stock exchange before the end of this year.

About 60 per cent of the group's shares are to be held by existing INA shareholders, including leading banks and credit institutions such as San Paolo, IMI and Cariplo.

Mr Benassi admitted that the Italian property market had been in the doldrums in recent years, not least because of laws fixing rents that are only gradually being relaxed. He said he was looking for a partner that could pump liquidity into the group amid fears that many of the existing shareholders are from the financial services sector and lack a fundamental commitment to property.

Mr Benassi's comments followed a decision this week to transfer most of INA's property holdings to Unione Immobiliare SpA. It holds property with a book value of about £5,000m (£2.75bn).

Like Benassi, INA managing director, said yesterday that he planned to launch Unione Immobiliare on the Milan stock exchange before the end of this year.

About 60 per cent of the group's shares are to be held by existing INA shareholders, including leading banks and credit institutions such as San Paolo, IMI and Cariplo.

Mr Benassi admitted that the Italian property market had been in the doldrums in recent years, not least because of laws fixing rents that are only gradually being relaxed. He said he was looking for a partner that could pump liquidity into the group

NEWS DIGEST

BANKING

Bank Austria takes Sch3bn charge for restructuring

Bank Austria, Austria's biggest banking group, is taking a Sch3bn (\$233m) charge to cover restructuring costs following last year's acquisition of Creditanstalt, the country's second biggest bank. Despite the charge, the group's 1997 net income rose by about 25 per cent to Sch5.5bn.

The group's net profits, prior to the special charge, roughly doubled in 1997 to Sch7.5bn. In January the group had forecast net profits of Sch7.5bn for 1997. Bank Austria's preference shares have more than doubled over the last year following the takeover of Creditanstalt.

Group operating income rose by 4 per cent, to Sch42bn, and operating costs were roughly unchanged at Sch28bn. The group is expected to increase its Sch12 a share dividend by more than 15 per cent. William Hall, Zurich

PHARMACEUTICALS

Rhône-Poulenc share swap

Rhône-Poulenc, the French pharmaceuticals group, is to simplify its balance sheet by offering holders of "participating shares" an opportunity to exchange them for new ordinary A shares. The company is offering 11 ordinary shares for each participating share issued between 1983 and 1986. If all 993,883 participating shares were tendered, it would result in the creation of about 10.9m new ordinary shares to add to the 360m currently outstanding. At Tuesday night's closing price of FF277.50, these new shares would be worth about FF3.5bn (\$489m).

Patrick Langlois, chief financial officer, said the move would reduce financing costs and was expected to have a positive impact on net income. In parallel, the company has decided to propose the conversion of the 928,820 preferred B shares outstanding into ordinary A shares at an exchange rate of one to one. David Owen, Paris

ENGINEERING

Rheinmetall advances fourfold

Rheinmetall, the fast-growing German engineering group, quadrupled net earnings last year from DM45.4m to about DM180m (\$95m), reflecting acquisitions, rationalisation and a policy of focusing on its core electronics, auto parts, machine building and defence equipment businesses. In a letter to shareholders it predicted higher profits this year.

Rheinmetall's operating profit jumped from DM91.7m in 1996 to a record of about DM300m last year, on sales increased from DM3.68bn to DM6.58bn. Incoming orders last year were also a record, rising 80.8 per cent to DM7.18bn. Peter Norman, Bonn

BROKING

LB Kiel buys Danish broker

Landesbank Schleswig-Holstein Girozentrale (LB Kiel) is to acquire the entire share capital in the Copenhagen brokerage house of Gudme Raaschou, which is active throughout the Nordic area in mergers and acquisitions, public share offerings and capital markets business, the two companies said yesterday. Gudme Raaschou, founded in 1925, was one of Denmark's few remaining independent brokerage houses. Hilary Barnes, Copenhagen

SOFTWARE GERMAN GROUP LAUNCHES STOCK PLAN TO REWARD LOYAL EMPLOYEES

SAP warns of slowdown in growth

By Paul Taylor

Shares in SAP fell yesterday after the leading European software group repeated its warning that growth would slow sharply this year and outlined a "virtual stock" plan to help it retain skilled employees.

SAP's shares closed DM4.79 in Frankfurt.

The German software group - the leader in the fast growing market for enterprise resource planning software used by multina-

tions to manage operations - repeated its forecast that sales would grow by between 30 per cent and 35 per cent this year.

The group, which announced provisional results for 1997 at the end of January, saw sales surge 62 per cent to DM6.02bn (\$3.29bn) last year and net profits grow by 63 per cent to DM924m.

Yesterday the company, ranked as one of the biggest software vendors in the world, said lower interest

and operating yield would cut its pre-tax margin by 1 per cent or 2 per cent this year, while the proposed employee share plan would weigh further on its results.

"As a global company, we see a strengthening of international competition for the best employees," Henning Kangermann, a management board member, said.

Mr Kangermann, who is expected to become co-chief executive when Dietmar Hopp, an SAP founder, steps down in May, held back from

repeating SAP's earlier forecast that pre-tax profits would increase at about the same rate as sales. He said that the employee incentive programme would affect personnel costs and might hit earnings per share this year.

Under the terms of the proposed incentive plan, designed to avoid the dilution effects and legal delays associated with standard stock options, loyal employees will be rewarded with "virtual shares".

The plan would allow

about 8,000 of SAP's rapidly growing workforce, which totalled almost 13,000 at the end of 1997, to benefit from gains in SAP's share price.

The shares have risen more than 30 per cent this year and nearly quadrupled over the past 18 months.

However, analysts said yesterday that the plan, although initially limited to one year, added a new element of uncertainty to SAP, one of Germany's most consistent growth stocks on the blue-chip DAX index. "It is

not clear how much this programme will cost. There are a lot of unclear issues," said John Kusmann, an analyst with Bank Julius Baer.

SAP, which plans to list on the New York Stock Exchange on August 3 and adopting US GAAP accounting rules, said yesterday that under the US rules its 1998 net income would be about five or six percentage points below the figure under Germany's HGB rules. Under US rules, 1997 net profits would have been 5.3 per cent lower.

Peugeot maintains pay-out despite loss

By David Owen in Paris

Shares of Peugeot-Citroën rose strongly yesterday after the French carmaker announced it was maintaining its dividend, in spite of reporting a substantial loss in 1997.

The shares surged FF1.97, or 10 per cent, in Paris to FF1.070, as the group also announced a number of ambitious targets, particularly for return on capital and for 1998 operating profits.

But Peugeot reported an annual net attributable 1997 loss of FF2.77bn (\$455m), against net income of FF2.74m in 1996.

This had been forecasted by an announcement last month that the group expected a net loss of FF2.5bn after taking into account FF1.85m of one-off items. These included a provision of FF1.44bn relating to the abandonment of an ill-advised currency hedging exercise.

Unlike 1996, when the net dividend was cut from FF5 to FF3 in the wake of a 57 per cent fall in annual profits, the managing board is this time proposing an unchanged payment of FF3.

Jean-Martin Folz, the recently installed president, set a 1998 target for the group's consolidated operating profit of at least FF2.6bn. This compares with operating profit of FF1.85m in 1997, down from FF1.55m.

Excluding exceptional items and changes in valuation methods, however, last year's operating profit was put at FF2.4bn. Mr Folz, who has moved swiftly to put his stamp on the group after taking over from Jacques Calvet last autumn, also announced a 12.4 per cent target for return on capital employed, to be achieved by 2001.

This compares with an average of 4.3 per cent achieved between 1994 and 1997 and just 2.4 per cent last year.

The management board believes 12.5 per cent is the level required to secure "sustainable development".

Excluding exceptions, but using the new presentation of the group's financial statements, the vehicles division made an operating loss of FF3.65m in 1997. Mr Folz acknowledged this was not the first time the unit had made an operating loss.

Non-vehicle operations contributed a profit of FF1.17bn and finance operations a profit of FF1.13bn.

In spite of the collapse of its domestic market, the group achieved a 5 per cent increase in unit sales in 1997 to 2.1m. In all, 72 per cent of sales were made outside France and 16 per cent outside Europe.

Observer, Page 11

VW sets its sights on new horizons

German vehicles group to target luxury car, truck and off-road markets

By Graham Bowley in Wolfsburg

Volkswagen of Germany yesterday confirmed ambitious plans to expand into new luxury car, truck and off-road vehicle markets. But Europe's biggest carmaker warned that sales this year had been hit by the slowdown in Asia and South America.

Ferdinand Piëch, chief executive, who revealed yesterday that VW this week bid for Rolls-Royce of the UK, said group earnings growth in the first three months of this year was "more favourable" than at the same stage last year.

"Our markets are booming," Mr Piëch said. "Our earnings will definitely be better than in 1997."

But he conceded sales were depressed by difficulties in Asian and South American markets as well as production problems with the launch of the new Golf model.

European vehicle unit sales grew 8.4 per cent in the first three months compared with last year. Worldwide sales in the period grew 2.2 per cent. Sales in Asia dropped 10 per cent while sales in South America plunged 25 per cent.

"This wish for two luxury marques could be filled by acquiring the British brands or we create something home-grown, revive histori-

(\$743m) on the back of a 12 per cent increase in sales to DM113.3bn.

The group signalled it was pressing ahead with plans to build a new off-road sports utility vehicle in co-operation with Porsche, the German sports car maker.

Robert Büchelhofer, board member, said: "We would like to penetrate this important segment. We are talking about co-operation with Porsche... we are making good progress on this."

Mr Piëch repeated VW's intention to enter the heavy truck market by 2010 at the latest. VW would do this by developing new models internally, through co-operation with another manufacturer or by buying a stake in another company, he said.

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

"Independent of the Rolls-Royce bid we might get an additional two-to-three top of the range models. If we are lucky they will be the two we have bid for."

growth

zons

Peugeot
maintain
pay-out
despite



bank
Natexis
7bn deal

Issued by Credit Suisse First Boston (Europe) Ltd, regulated by SFA.

WORLD CLASS PERFORMANCE IN 1997

PRODUCING RESULTS
FOR OUR CLIENTS AND
OUR SHAREHOLDERS.

- \$7.1 BILLION IN REVENUE
- \$1.8 BILLION IN PROFIT BEFORE TAX*
- 18% RETURN ON EQUITY

DONE.

*Profits before exceptional/extraordinary items and, in the case of return on equity, after taxes.

Credit Suisse First Boston reported business unit results for 1997 as part of Credit Suisse Group's results announcement. They are what you'd expect from a world class investment banking firm.

CREDIT
SUISSE | FIRST
BOSTON

THE GREATER THE RESOURCES, THE GREATER THE POSSIBILITIES.

COMPANIES & FINANCE: INTERNATIONAL

UBS-SBC MERGER NEW YORK STATE BANKING DEPARTMENT LODGES OBJECTION TO DEAL OVER QUESTION OF NAZI VICTIMS' DEPOSITS

Swiss bank deal threatened with delay

By William Hall
in Zurich

The merger of Union Bank of Switzerland and Swiss Bank Corporation into one of the world's top five banks could be delayed following a decision by the New York State Banking Department to oppose the merger.

The department has lodged a formal objection to the merger in a letter to the US Federal Reserve, citing "substantial concern" over

the welfare of the two banks' depositors. The Federal Reserve, the US central bank, has ultimate responsibility for approving the merger.

The department accused the two banks of "inattention and disregard" for depositors who fell victim to the Nazi Holocaust or their heirs, who have never received funds to which they are entitled.

This "raises regulatory questions about the character and fitness" of the banks

concerned, the department alleged.

UBS said it was "very disappointed" by the New York development. The merger has already been cleared by the European Union competition authorities, and the Swiss cartel commission until June 5th to make its decision.

Analysts had been expecting the merger to be completed by mid-June. John Leonard, of Salomon Brothers, said it was not

unknown for bank mergers to go ahead before final US approval had been granted.

The intervention of

the New York banking authorities is the latest sign of the pressure on the Swiss banks to agree to a "global settlement" of the multi-billion-dollar class action suits they face from Holocaust survivors. Today, Alan Hevesi, the New York city comptroller, will host a meeting on whether to

impose sanctions on Swiss banks because of their alleged slowness in meeting the claims of dormant account holders.

George Pataki, the republican governor of the state of New York, said that before the two banks were allowed to merge, "they must convince New York's bank regulators and the Federal Reserve Board of Governors that they are doing everything in their power to rectify a great

injustice from the past".

Although the Federal Reserve has the power to approve the merger, the New York regulators have the power to revoke the two banks' local banking licences in New York, the world's most important financial centre.

Elizabeth McCaul, acting New York banking superintendent, warned the two banks that the granting of a banking licence was "a privilege, not a right".

Norwegian paper group in talks on Thai buy

By Greg McIver in Stockholm

A trend among Europe's largest forestry groups to seek partners in Asia gained momentum yesterday when Norske Skog, of Norway, said it was in talks to acquire a majority stake in Thailand's only newsprint mill.

Norske Skog, one of Europe's biggest newsprint producers, said it had signed a letter of intent to acquire a stake in Shin Ho Paper. The acquisition would take place via a rights issue to which only Norske Skog would subscribe.

The agreement reflects a surge in interest among large European paper companies in the Asian market during the past year.

Enso, of Finland, said last week it was in talks with potential partners in south-east Asia, including a Thai company, over collaboration in fine paper. Sweden's Stora announced a big fine-paper deal in China in January.

Finland's UPM-Kymmene, Europe's biggest forestry group, last year entered a fine-paper joint venture with Asia Pacific Resources International, the Singapore-based manufacturer.

Jar Reinas, Norske Skog chief executive, said the addition of Shin Ho's newsprint mill at Sing Buri, north of Bangkok, would increase Norske Skog's annual newsprint production capacity to 2.1m tonnes from early next year. This would make it the world's third largest supplier.

Sing Buri has annual capacity of 120,000 tonnes. Norske Skog said the mill's machines correspond to European standards.

Bufete is forced to take hard knocks

Mexican construction

Nothing seems to be going right lately for Bufete Industrial, Mexico's second largest construction company.

The country is on its biggest infrastructure development drive in decades, but last year the three main government contracts - worth some \$3.75bn - slipped through Bufete's fingers.

Its best client is Pemex, the oil monopoly which this year embarked on a three-year \$25bn plan to boost production and refining. But a drop in crude prices forced the government on Tuesday to crimp its investments in energy for the second time this year, raising doubts about how much of the wishlist Pemex would complete.

Last week, Juan Alberto Zepeda Novelo, Bufete's pointman for oil development projects, was thrown in jail on money-laundering charges.

Mr Zepeda Novelo was a shareholder of a small bank that officials say was briefly owned by a Mexican drug cartel. Bufete immediately denied any money-laundering links, but it was nonetheless shaken by the scandal.

The knocks have brought a note of contrition to Bufete executives, who in early 1997

had been promising investors their best year on record. In the past six months, its share price has tumbled 62 per cent.

The company acknowledges it may have unjustifiably primed expectations, especially in promising a \$65m payment. Bufete says it is due for work completed at the Federal Electricity Commission (CFE). Three years

ago, the figure is still in dispute.

"It will continue to be a difficult year. What the analysts say is no lie."

What went wrong reflects

the transformation in the way Mexico's budget-conscious government is carrying out big infrastructure projects.

Instead of funding them itself, the government is awarding concessions to companies that can build, finance and operate power-generation plants, natural-gas distribution networks, water-treatment plants and airports.

Mexican construction companies have had to team up with foreign partners in order to acquire the expertise and cheap funding that are not readily available at home.

Of Mexico's big three construction companies, Buete has found the transition most awkward.

"It's the first time that for these large projects the name of the game is not engineering and construction so much as operating and financing," Mr Zepeda says.

"However, Buete not only failed to win [big contracts last year], it also spent three years promising it would receive the CFE payment but it never did. So the sentiment is one of deception, and it's very understandable."

Mr Zepeda Novelo was a shareholder of a small bank that officials say was briefly owned by a Mexican drug cartel. Bufete immediately denied any money-laundering links, but it was nonetheless shaken by the scandal.

The knocks have brought a note of contrition to Bufete executives, who in early 1997

had been promising investors their best year on record. In the past six months, its share price has tumbled 62 per cent.

The market is very sentiment-driven, and it expected a lot from Bufete," admits Jaime Zepeda, the company's new head of investor relations.

"However, Buete not only failed to win [big contracts last year], it also spent three years promising it would receive the CFE payment but it never did. So the sentiment is one of deception, and it's very understandable."

What went wrong reflects

the transformation in the way Mexico's budget-conscious government is carrying out big infrastructure projects.

Instead of funding them itself, the government is awarding concessions to companies that can build, finance and operate power-generation plants, natural-gas distribution networks, water-treatment plants and airports.

Mexican construction companies have had to team up with foreign partners in order to acquire the expertise and cheap funding that are not readily available at home.

Of Mexico's big three construction companies, Buete has found the transition most awkward.

"It's the first time that for these large projects the name of the game is not engineering and construction so much as operating and financing," Mr Zepeda says.

"However, Buete not only failed to win [big contracts last year], it also spent three years promising it would receive the CFE payment but it never did. So the sentiment is one of deception, and it's very understandable."

Mr Zepeda Novelo was a shareholder of a small bank that officials say was briefly owned by a Mexican drug cartel. Bufete immediately denied any money-laundering links, but it was nonetheless shaken by the scandal.

The knocks have brought a note of contrition to Bufete executives, who in early 1997

had been promising investors their best year on record. In the past six months, its share price has tumbled 62 per cent.

The market is very sentiment-driven, and it expected a lot from Bufete," admits Jaime Zepeda, the company's new head of investor relations.

"However, Buete not only failed to win [big contracts last year], it also spent three years promising it would receive the CFE payment but it never did. So the sentiment is one of deception, and it's very understandable."

What went wrong reflects

the transformation in the way Mexico's budget-conscious government is carrying out big infrastructure projects.

Instead of funding them itself, the government is awarding concessions to companies that can build, finance and operate power-generation plants, natural-gas distribution networks, water-treatment plants and airports.

Mexican construction companies have had to team up with foreign partners in order to acquire the expertise and cheap funding that are not readily available at home.

Of Mexico's big three construction companies, Buete has found the transition most awkward.

"It's the first time that for these large projects the name of the game is not engineering and construction so much as operating and financing," Mr Zepeda says.

"However, Buete not only failed to win [big contracts last year], it also spent three years promising it would receive the CFE payment but it never did. So the sentiment is one of deception, and it's very understandable."

Mr Zepeda Novelo was a shareholder of a small bank that officials say was briefly owned by a Mexican drug cartel. Bufete immediately denied any money-laundering links, but it was nonetheless shaken by the scandal.

The knocks have brought a note of contrition to Bufete executives, who in early 1997

had been promising investors their best year on record. In the past six months, its share price has tumbled 62 per cent.

The market is very sentiment-driven, and it expected a lot from Bufete," admits Jaime Zepeda, the company's new head of investor relations.

"However, Buete not only failed to win [big contracts last year], it also spent three years promising it would receive the CFE payment but it never did. So the sentiment is one of deception, and it's very understandable."

What went wrong reflects

the transformation in the way Mexico's budget-conscious government is carrying out big infrastructure projects.

Instead of funding them itself, the government is awarding concessions to companies that can build, finance and operate power-generation plants, natural-gas distribution networks, water-treatment plants and airports.

Mexican construction companies have had to team up with foreign partners in order to acquire the expertise and cheap funding that are not readily available at home.

Zim losses hit Israel Corp

Net profits at the Israel Corporation, a holding company controlled by the family of Shaul Eisenberg, the late tycoon, plunged 33 per cent last year because of heavy losses at Zim, its troubled shipping subsidiary. Annual net profits shrank from Shk24.8m to Shk16.4m (\$4.6m), while revenues climbed 3 per cent from Shk5.53bn to Shk5.82bn. In the fourth quarter, the company recorded a loss of Shk15m, compared with Shk57m net profits in the third quarter.

Zim's losses reached \$36m in 1997, more than double its net loss of \$16m in 1996. The company blamed eroded profitability because of fierce competition during the past two years. Israel Corporation said Zim had taken cost-cutting measures to bring it back to the black. Avi Meichlis, Jerusalem

HOLDING COMPANIES

Zim losses hit Israel Corp

Net profits at the Israel Corporation, a holding company controlled by the family of Shaul Eisenberg, the late tycoon, plunged 33 per cent last year because of heavy losses at Zim, its troubled shipping subsidiary. Annual net profits shrank from Shk24.8m to Shk16.4m (\$4.6m), while revenues climbed 3 per cent from Shk5.53bn to Shk5.82bn. In the fourth quarter, the company recorded a loss of Shk15m, compared with Shk57m net profits in the third quarter.

Zim's losses reached \$36m in 1997, more than double its net loss of \$16m in 1996. The company blamed eroded profitability because of fierce competition during the past two years. Israel Corporation said Zim had taken cost-cutting measures to bring it back to the black. Avi Meichlis, Jerusalem

PHILIPPINES

Merger talk lifts Smart, Piltel

Market speculation on a possible merger between Smart and Piltel, the two leading cellular telephone groups in the Philippines, intensified yesterday following a report that company officials were holding high-level talks. Shares in Piltel climbed 6 per cent yesterday, taking the increase to 17 per cent in the past several days.

Mike Lonergan, Smart chief financial adviser, denied the group was in talks with Piltel and said he was "surprised" by the report, which claimed Manuel Pangilinan, chairman of Metro Pacific, Smart's parent company, and Antonio Cojuangco, president of PLDT, Piltel's parent, were discussing a possible merger. "If we were looking to merge, our immediate focus would be on a GSM operator rather than CDMA, because Smart's frequency is within the GSM band," he said.

Shares in Metro Pacific, the Philippine flagship of Hong Kong-based First Pacific, have been gaining in the past several trading sessions on speculation that the group is planning to bid out its 33 per cent stake in PDCP Bank. Yesterday, they gained 4 per cent to 2.32 pesos. Justin Marozzi, Manila

LEISURE

Euro Disney plans 3D cinema

Euro Disney, the operator of the Paris theme park, plans to open a new FF100m (\$16.3m) 3D cinema to attract visitors and encourage them to spend longer in the park. The 600-seat hall, due to open next spring, represents the first significant expenditure on attractions since Space Mountain, a high-speed rollercoaster, was opened in 1996.

The 20-minute show will be based on the film *Honey I Shrunk The Kids*, and include chairs that move and three-dimensional film images such as giant mice designed to create the impression that viewers have been miniaturised.

Euro Disney, which is still struggling under the burden of its heavy financial restructuring package brokered in 1994, is attempting to launch new developments without large capital expenditure. Andrew Jack, Paris

for SE-Banken if it expanded the geographical base of the insurance operations, it would be through Trygg.

Andrew Mitchell, European insurance analyst at Merrill Lynch in London, said the Finnish market was relatively "under-insured", with most savings held by banks.

Skandinaviska Enskilda Banken, the Swedish bank, said yesterday it had purchased a large portion of a 15 per cent stake in Sampo, Finland's largest insurer, sold by MeritaNordbanken, the Swedish-Finnish bank.

Lars Thunell, SE-Banken chief executive, said the

bank was holding 9.9 per cent of Sampo's equity as a "financial investment" in anticipation of further restructuring of the Finnish financial market.

He said the shares had been bought by Trygg-Hansa, the Swedish insurer acquired by SE-Banken last year. The purchases took place during 1997 at an average price of FM140 per share.

Sampo's most-traded A shares slipped 20.20 yesterday to FM219.80. Speculation over restructuring helped lift SE-Banken's A shares by 5.92 to SKR12 to SKR12.50.

MeritaNordbanken, itself formed by a merger last year, announced on Tuesday it was booking a FM1.1bn (\$162m) capital gain from the

sale of its entire stake in Sampo. The move is part of a programme of non-core asset disposals.

The bank said the shares had been sold in parcels to different buyers. Its stake in Pohjola, Finland's other large insurer, was also for sale "at the right price".

Analysts suggested Sampo could be an attractive part

of SE-Banken if it expanded the geographical base of the insurance operations, it would be through Trygg.

Andrew Mitchell, European insurance analyst at Merrill Lynch in London, said the Finnish market was relatively "under-insured", with most savings held by banks.

for SE-Banken if it expanded the geographical base of the insurance operations, it would be through Trygg.

Andrew Mitchell, European insurance analyst at Merrill Lynch in London, said the Finnish market was relatively "under-insured", with most savings held by banks.

for SE-Banken if it expanded the geographical base of the insurance operations, it would be through Trygg.

Andrew Mitchell, European insurance analyst at Merrill Lynch in London, said the Finnish market was relatively "under-insured", with most savings held by banks.

At the Supervisory Board Meeting held on 23 March 1998, Jean-Louis Damas, Gérant, presented the financial statements for the year to 31 December 1997.

The Group's consolidated turnover was FF4.856 million, or 16.1% higher than in 1996. At constant exchange rates, the increase would have been 11.8%.

The company registered uniform sales growth. In Europe (including France), where Hermès generates almost half of its turnover, sales tracked the general trend for the Group. In Asia, Hermès registered a 17% advance in turnover, thanks to a robust 37% rise in Japan.

A message from R W Rowland, Lonrho's largest personal shareholder

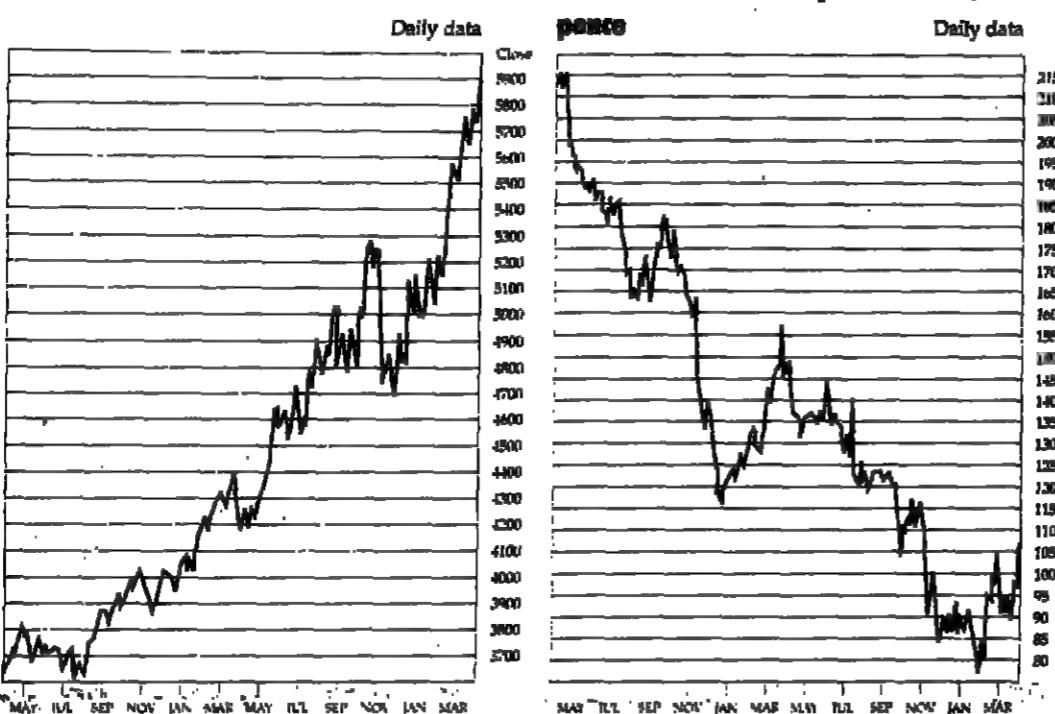
Lonrho Plc - think twice!

Dear Lonrho shareholder,

A mountain of paper has landed in your letterbox, sent by the directors of Lonrho. They want your votes again, to split a faltering company in two and execute a Share Buyback linked with the purchase of South African coal mines. Before voting please consider the essential facts:

- Lonrho's share price is down more than 25% for the year, against a soaring FTSE-100.
- Lonrho's profit (before exceptional items) went down to £48m in '97, the last year of the combined entity.
- The Tavistock-Share Buyback deals will raise debt at Lonrho to uncomfortable levels.
- Lonrho has lost a valuable claim against Gencor due to the extraordinary intervention of Mr Bock, Lonrho's former chief executive.
- Lonrho's board is now dominated by five non-executive directors. They do not add expertise or represent institutional investors.
- Analysts expect the Lonrho Africa share price to trade initially at a discount to Net Asset Value.

FTSE 100 index 1996/98



Shareholders will remember last year's AGM, when John Craven, the newly appointed chairman, promised to work in the interests of all Lonrho shareholders to create shareholder value. It hasn't happened.

THE BUYBACK

To achieve the board's desire, about £176.7 million in cash is going to flow out of our company to Anglo-American (or its designated recipients), present holders of the so called 'overhang' of Lonrho shares. A short while ago Anglo American bought about 50 million more of my shares at 200p; but now they are willing to sell at 106p. They have lost scores of millions on the investment and the lower price reflects their estimate of Lonrho's future, unless there are further understandings between the parties of which shareholders have not been informed.

Including £17 million Advance Corporation Tax, £0.9 million stamp duty and the 3 pence dividend per share, the net price for the Share Buyback of the 166.7 million shares is nearer 120p than 106p per share.

None of the points made by Lonrho's directors in support of the Buyback go directly to improving the dividend or the share price, and I recommend shareholders pay attention to the caveat of Deutsche Morgan Grenfell, nursesmaids to the proposal. They say they recommend it, having 'taken into account the Directors' commercial assessment' of the acquisition and the Lonrho Share Buyback. The same directors recommended the Metropole disaster, the futility of two years of negotiation over the Princess Hotels, the loss of Lonrho Sugar (built up over thirty years into a very good business), and now they have been responsible for the debacle over the Keree mine litigation. There has been one constant factor: Deutsche Morgan Grenfell acting through John Craven, today's chairman. Sir John and Morgan Grenfell came in with Dieter Bock and in my opinion a great part of Lonrho's misfortunes spring from their poor advice.

Despite our board's super forecasts, their combined holdings represent 0.1% of the issued capital, and have increased minimally in the last 3 years. They now forecast that buying coal and buying in Lonrho shares will 'enhance earnings' in the year ending 1999. They do not forecast higher dividends. The board has invited Sir Alastair Morton to join them and share his experience gained in the black hole of shareholder value, the Channel Tunnel. He has international expertise in facing furious shareholders.

COAL AND LONRHO

In a chain reaction with the Buyback, Lonrho is committed to taking the Tavistock coal mines from JCI for a hefty £167 million (R 1.378 billion) in cash, which after study actually looks like £181 million (R 1.5 billion). JCI is boasting to its shareholders about the figure.

Both transactions must go ahead, or neither. Both are up for approval on April 9th, the Thursday before Easter, at the Lonrho EGM.

It is quite a leap to get so heavily into coal in South Africa. At the moment Lonrho has 61% of Duiker coal, and our total coal interests have a market value of £52 million. We are looking at increasing our coal investments three or four fold, depending on the real value of Tavistock. The main reasons given for the proposed acquisition are synergies with Tavistock assets, which Lonrho could have bought directly from Shell South Africa one year ago. Since the announcement of the Tavistock deal Duiker's share price has dropped by 20% to R4 levels, reflecting how the market values the deal.

*R W Rowland's message is not intended to constitute investment advice. The calculations and information in this advertisement are based on publicly available information which has been obtained from sources which are believed to be reliable. The displayed information should not be relied upon since no guarantee for accuracy, completeness or otherwise can be given.

NEW LONRHO MINING

Leaving Princess Hotels aside (still forlornly at the altar) your company will effectively split in two if shareholders follow the board. Whether we do well or not depends entirely on this board's commercial judgement, as Deutsche Morgan Grenfell point out. Let's have a look at the main assets of New Lonrho Mining, described as a 'focused international mining group'.

- 33% (36 million shares) of Ashanti, which Lonrho does not manage or influence with two directors out of twelve. Market value £186 million.
- 73% of Western Platinum, where thanks to Mr Bock's questionable actions, the board is permanently split and market value reduced.
- 61% of Duiker Coal with a market value of £52 million, plus Tavistock coal if shareholders support it on April 9th.
- and some comparatively small gold mines in Zimbabwe, not all wholly owned.

It certainly does not yet look like a focused *international* mining group, as the board like to describe it to journalists. Mr Terence Wilkinson who formerly managed Lonrho South Africa is to lead 'New Lonrho Mining' to the uplands of international profit.

WHAT'S WRONG AT KAREE?

Lonrho has a junior partner, Gencor, in its platinum mine.

Gencor was given a shareholding of 27% in exchange for Keree, a neighbouring mine which has subsequently turned out to contain an enormous fault. Lonrho under my directorate held that the fault was known to the sellers but not disclosed to Lonrho, and had intended, by arbitration, either to reduce Gencor's shareholding in proportion to the gravity of the fault or to have financial compensation for it, which was expertly assessed to be some £44 million - a sum pretty near to the £48 million profit Lonrho Plc made last year and significant, regardless of whether it was settled in money or in shares. Gencor's board representation and influence would have declined, to Lonrho's advantage as a 'focused international mining group'.

In my view the whole of that position has been given away, without the authorisation of Lonrho's board, thanks to Mr Bock's extraordinary intervention. This leaves the future of the mine subject to the directors representing our minority partner. Mr Bock privily undertook to drop the Keree claim and (having sold all his Lonrho shares) later wrote a letter confirming this to Mr Gilbertson of Gencor. In the interim Lonrho sent out a circular about the Metropole deal which referred to Keree but did not disclose the true position; presumably the rest of the board did not know what Mr Bock had done. Nine days after his letter Mr Bock left the company's employ as chief executive. Our Lonrho board then tried to circumvent Mr Bock's letter but failed. An order was made against Lonrho by the South African court. For five months after writing the letter, while Lonrho defended the litigation that their chief executive had caused, Mr Bock was allowed to continue as a non-executive deputy chairman of Lonrho, until he left with a profit of over £130 million. A truthful account of Mr Bock's misconduct has never been given to shareholders.

CONFLICT OF INTEREST

Five non-executive directors, including two appointments by Lonrho's former chief executive Dieter Bock, Stephen Walls and Peter Harper, are now dominating the four executive directors on Lonrho's board.

Since becoming chairman of Lonrho Plc last year, John Craven, Deutsche Morgan Grenfell's former chairman, has brought in two friends, Roger Phillipps and Alastair Morton as non-executive directors. Craven, Morton and Phillipps share a South African background. John Craven is linked through the business interests of the Rupert family⁸ to Gencor and Deutsche Morgan Grenfell have been recently appointed advisers to Gencor. It is difficult to present any one of the non-executive directors as a truly independent appointment.

LONRHO AFRICA - A DIFFICULT BIRTH

Lonrho Africa will operate in 14 countries, but sadly has no core business since Lonrho Sugar was sold. It will be hard to build it up again.

- The timing of the demerger is badly advised, given the '97 results of Lonrho Africa and the difficult markets Lonrho Africa is trading in at the moment.
- Lonrho Plc must leave Lonrho Africa with £70 million in cash to give it a chance.
- The failure to secure a listing on the South African Stock Market will add selling pressure to the Lonrho Africa share price.
- Black empowerment is not recognised at board level. The present board is under-qualified for the task facing them.
- Better and independent non-executives are needed. Stephen Walls from Albert Fisher Plc (shares down from 48p to 28p), where he is under pressure by shareholders for non-performance, is an incomprehensible choice.

I put a value of £500 million plus on Lonrho Africa had it included Lonrho Sugar, but reduce that figure by very much more than the £223 million achieved in a private sale of our estates because the steady income from sugar has also gone. Admirable as the other agricultural businesses are, they are not big earners and are far flung. The motor dealerships are franchises renewable at the will of the manufacturers.

Overall Lonrho Africa could be a promising company on a continent with a bright future, if it were provided with a far better board.

I close by saying that as the largest personal shareholder, I find it hard to see merit in these proposals. As the founder of Lonrho Plc, I see none at all. What about a name change?

Yours sincerely

R. W. Rowland

R. W. Rowland

PS. I have instructed my solicitors to pursue shareholders' interests in the case of the Bock/Gilbertson letter.

26 March 1998

⁸See page 94 of the Lonrho Circular on the Tavistock-Share Buyback proposals.

⁹Lonrho's board always gave the impression that they could avoid this tax, by developing a structure which wouldn't trigger a Buyback until April '99, when Advance Corporation Tax is going to be abolished.

¹⁰See page 13 of the Lonrho Circular on the Tavistock-Share Buyback proposals.

¹¹Shareholders will remember the JCI merger proposals in which Terence Wilkinson, Lonrho's director, being chosen by JCI as the future CEO of a merged company, had a clear conflict of interest.

¹²The Rupert family is looked upon as being one of the controlling shareholders in Gencor.

¹³See statement by the Lonrho board on the current trading situation in the Deutsche Morgan Grenfell Circular on the Lonrho Africa Demerger (pages 31-32) and the Lonrho Circular on the Tavistock-Share Buyback (page 14).

COMPANIES & FINANCE: THE AMERICAS

SOFTWARE INDUSTRY LEADER GIVES UNUSUAL PREVIEW OF QUARTERLY RESULT TO COUNTER UNCERTAINTY

Microsoft says earnings beat forecasts

By Louise Kehoe
in San Francisco

Shares of Microsoft jumped more than 5 per cent in early trading yesterday after the software industry leader said it would beat Wall Street expectations with earnings of about 46 cents a share for the quarter ending March 31.

In an unusual move, Microsoft previewed its third-quarter results after the close of trading on Tuesday. Greg Maffei, chief financial officer, said earnings

would be 4 cents or slightly more above the consensus of Wall Street analysts' projections, which stood at 43 cents a share. In the third quarter of last year, Microsoft earned \$1.04bn, or 40 cents a share, adjusted for a subsequent stock split, on revenue of \$3.21bn.

Microsoft had decided to

counter uncertainties after recent profit warnings issued by other computer companies in the personal computer sector, Mr Maffei said. These

have included Intel and

Compaq Computer. While these warnings had led some analysts to suspect slowing growth in PC sales. Microsoft had not seen any drop in revenues from PC manufacturers, he said.

Although Asian markets remained weak, there was "some evidence that they are not getting weaker, but little evidence of improvement".

Microsoft's third-quarter revenues had been boosted by strong sales of Office, its business application products, and strong sales in

Europe, he added. However, Mr Maffei said: "We continue to see solid growth, but growth is slowing, so people should not take this quarter as a harbinger of future quarters."

Growth in the third quarter would be less than 30 per cent, he noted, compared with an average growth rate of about 50 per cent in recent quarters. Still, the company expected fourth-quarter earnings to be "a few pennies above" analysts' estimates of around 43 cents

a share. Growth in the current quarter was likely to be higher than in subsequent calendar 1998 quarters, he said. "This quarter could produce the highest earnings per share of any 1998 quarter," Mr Maffei said.

Analysts were sceptical, because Microsoft has often expressed caution about future results only to exceed expectations.

Microsoft shares were trading at \$85 in mid-session, up \$4, or 5 per cent, from Tuesday's close.

Shares of 3Com, the computer networking equipment manufacturer, dropped by 3 per cent to trade at \$35 in mid-session yesterday after the company reported lower-than-expected earnings.

Net profits for the third quarter, ending March 1, were \$13.9m, or 4 cents a share, on revenues of \$125.8m. A year ago 3Com recorded earnings of \$17.9m, or 5 cents, on revenues of \$145m. The latest results include a \$9.9m acquisition charge.

NEWS DIGEST

INTERNET

Netscape creates arm to boost website presence

Netscape Communications has created a division aimed at transforming its website into a full internet service to compete with companies such as Yahoo! and America Online. Netscape's Netcenter website is one of the busiest on the internet with 5.6 million registered users. Over the past six months it has become a growing source of revenues for the software company as information and service providers and advertisers pay fees to be on the site. In the fourth quarter, ended in December, Netcenter generated \$21m, or about 25 per cent of total revenues.

Mike Horner, formerly executive vice-president of sales and marketing and who was yesterday appointed general manager of the new division, said Netscape aimed to draw on the 60m users of its browser software, Louise Kehoe, San Francisco.

AEROSPACE

Northrop takes \$180m charge

Northrop Grumman, the US aerospace group at the centre of a confrontation between Lockheed Martin and the federal government, will take a pre-tax charge of \$180m against first-quarter earnings. Part of the charge, which is likely to take the group into a loss, according to analysts' calculations, was to cover the cost of vesting restricted stock which became valid for issue after shareholders approved the stalled merger with Lockheed last month, the company said.

While analysts had estimated Northrop's first-quarter earnings at \$1.44 a share, the company said the charge would reduce the figure by \$1.70. Christopher Parkes, Los Angeles

PATENTS

Imatec sues Apple Computer

Imatec, the technology developer, has filed a lawsuit against Apple Computer, alleging infringement of three patents and seeking \$1.1bn in damages. The suit alleges that Apple infringed Imatec patents "by its making, using, and/or selling its Color Sync colour management systems and inducing others to do so".

Apple officials were not immediately available for comment. The patents in question were issued to Hansch Stett, Imatec president, who granted exclusive licences to his company, Imatec said. Reuters, New York

GOLDMAN SACHS

Mondale appointed adviser

Goldman Sachs has named Walter Mondale, former US ambassador to Japan, its senior adviser on Japanese issues. Mr Mondale, US vice-president from 1977-81 and unsuccessful Democratic presidential candidate in 1984, is the latest heavy hitter to deploy his public experience for the investment bank. Peter Shiffman, former European commissioner and first director-general of the World Trade Organization, has been chairman of Goldman Sachs International since 1995.

Clay Harris, Banking Correspondent

PHARMACEUTICALS

Monsanto to sell optical unit

Monsanto, the US agribusiness, pharmaceuticals and biotechnology group, is to sell its optical products division to BMC Industries for \$100m. The business, based in California, makes optical lenses and employs about 285 people. The disposal is the latest by the St Louis-based company, as it refocuses on higher value-added products such as drugs or genetically-engineered crops. Nikki Tait, Chicago

RETAILING

Wal-Mart tests smaller stores

Wal-Mart Stores, the world's biggest retailer, is planning to experiment with smaller discount stores at three locations in and around its home town of Bentonville, Arkansas. The stores will measure about 40,000 sq ft each, compared with an average of 92,500 sq ft for the group's existing stores.

The strategy is similar to that adopted by Sears Roebuck, the world's second biggest retailer, which is opening hundreds of neighbourhood stores across the US.

Wal-Mart has 1,900 out-of-town discount stores selling general merchandise, 440 Supercenters that sell groceries and fresh produce as well, and 440 Sam's Club membership warehouses.

Richard Tomlins, New York

Caracas plans relaunch of aluminium sale

By Raymond Colitt in Caracas

The world's leading aluminium companies are to make a second attempt, under new conditions, to acquire Venezuela's troubled aluminium complex, one of the world's largest.

The Venezuelan government pledged to relaunch the sale it suspended yesterday within two months, after the last remaining consortium, led by Billiton, the UK, withdrew on Tuesday.

"We are coming back with redoubled determination that will allow a transparent culmination of this process," said Alberto Poletto, head of FIV, the privatisation agency.

"Far from a defeat, this could well be a triumph beyond what [yesterday's] sale would have been," he said, adding that Rafael Caldera, the country's president, was determined to see the sale through.

Mr Poletto said the government would take into consideration the suggestions made by the three international consortia, which included Alcan and Reynolds of the US, Alcan of Canada, and Norsk Hydro of Norway. These groups successively withdrew from the bidding process, objecting to the base price of \$2.1bn, high energy costs, and labour and environmental obligations.

Mr Poletto said the Billiton-led consortium had

sought last-minute demands that were impossible for the government to meet.

However, the government also emphasised that the terms of the sale had been known for months and established with the consent of the potential investors.

Reports suggested that Telus could acquire two-thirds of AT&T Canada, which a telecoms analyst valued at C\$1bn (US\$704m).

However, it is likely that such a combination would be the first move in a wave of consolidation in Canada's telecoms sector, which comprises 11 local service providers and several long-distance competitors.

Analysts believe that Bell Canada, the country's largest phone group, will respond to the talks by launching a bid to acquire Telus to keep intact the 11-member Stentor alliance of local telephone carriers. Bell Canada, wholly owned by BCE, has conceded that the alliance "will need to be redesigned" and indicated it was in talks with other members to determine how best to respond.

"If this deal goes through, Stentor will break up unless BCE can buy out the members," said David Ghose of James Capel Canada.

However, BCE would not comment if it had

TELECOMS MOVE COULD LEAD TO A WAVE OF INDUSTRY CONSOLIDATION

Telus confirms AT&T talks

By Scott Morrison in Toronto

Canada's telecommunications industry is in upheaval after Telus, the Alberta-based local telephone company, confirmed it was in talks to form a "business combination" with AT&T Canada Long Distance Services.

Reports suggested that Telus could acquire two-thirds of AT&T Canada, which a telecoms analyst valued at C\$1bn (US\$704m).

However, it is likely that such a combination would be the first move in a wave of consolidation in Canada's telecoms sector, which comprises 11 local service providers and several long-distance competitors.

Analysts believe that Bell Canada, the country's largest phone group, will respond to the talks by launching a bid to acquire Telus to keep intact the 11-member Stentor alliance of local telephone carriers. Bell Canada, wholly owned by BCE, has conceded that the alliance "will need to be redesigned" and indicated it was in talks with other members to determine how best to respond.

"If this deal goes through, Stentor will break up unless BCE can buy out the members," said David Ghose of James Capel Canada.

However, BCE would not comment if it had

approached Telus in the wake of the Telus/AT&T announcement.

The prospect of sector consolidation lifted Canadian telecoms stocks for the second day. BCE was up C\$3 at C\$39.25 in early trading yesterday, while Telus had gained C\$2.65 to C\$43.05.

Even if the merger talks break off, analysts believe developments have permanently damaged the relationship among Stentor members, which have operated under an unwritten agreement that they do not encroach on each other's territory.

An operational merger between Telus and AT&T would create a formidable provider of local and long-distance service, enabling the combined company to operate outside Alberta.

Telus would immediately obtain a national high-speed network with which it could attack the Ontario long-distance market. That would put it into direct competition with Bell Canada, its alliance partner. AT&T, which is one-third owned by its US parent and two-thirds owned by three Canadian banks, would gain access to a local exchange with 1.3m phone lines which would form a solid client base for its long-distance service.

Telus, Canada's third largest local service provider, has signalled it is unsatisfied with its position in the Bell Canada-dominated alliance.

Canada's Telglobe is scheduled to lose its monopoly on overseas calls in October and while it recently signed three-year agreements guaranteeing it a minimum amount of traffic from Stentor members, it would eventually suffer the loss of Telus' long-distance traffic if the "combination" happens.

Analysts say consolidation could involve Canada's cable television companies. Should Bell Canada face a Telus/AT&T alliance, it could pursue Shaw Cable in a bid to acquire its broadband network in Alberta.

Analysts suggested regulators would be likely to approve a Telus acquisition of AT&T Canada, because it is consistent with the government's aim to foster more competition in the sector. A Bell Canada bid for Telus, however, could pose problems for regulators.

Lehman takes top spot in M&A consultancy

By William Lewis
in New York

Lehman Brothers, the investment bank, has moved to the top of the league table for US mergers and acquisitions advisory work, helping the bank to record earnings per share in the first quarter of 1998.

According to Securities Data, the leading M&A data consultancy, Lehman has advised on deals worth \$35.5bn announced in the US

in the year to date, giving it a market share of 28.1 per cent.

Merrill Lynch ranked second, with announced US deals worth \$32.8bn. Credit Suisse First Boston is third, having advised on \$40bn of takeovers.

The US is the world's most valuable M&A market. Over the past three months, Lehman's M&A department, under the management of Steven Wolitzer, has advised companies involved in some

of the largest takeovers in the US market.

It advised Digital Equipment on its \$2.6bn merger with Compaq Computer, and Washington Mutual on its \$9.9bn acquisition of HF Ahmann.

Analysts said yesterday that Lehman had traditionally been seen by investors as a fixed-income trading house. However, two years into its attempt to move into higher-margin investment banking activities such as

equity trading and M&A, Lehman's efforts appear to be paying off. In the first quarter of 1997, Lehman ranked ninth in announced US takeover advisory work, while for the full year it ranked fifth.

Lehman yesterday announced net income of \$187m, or \$1.44 per common share, for the first quarter to February - a 30 per cent increase on the \$144m net income, or \$1.16 per share, achieved in the same period

last year. According to First Call, the Boston-based research group, analysts had forecast that Lehman would declare earnings per share of \$1.20 for the quarter.

In morning trading in New York, Lehman's shares rose \$1.14 to \$74.50.

Net revenues for the first quarter were \$1.045bn, an increase of 13 per cent on the \$925m achieved in the first quarter of 1997. Investment banking revenues were

\$345m, compared with \$240m, of which \$66m came from M&A advisory work.

Non-interest expenses were \$770m, against \$702m a year earlier.

"Despite seasonal lulls in trading and underwriting that extended well into January, the full quarter reflected the across-the-board strength we have seen in our major businesses for the past year and a half," said Richard Fuld, chairman and chief executive officer.

PUBLIC NOTICES

NOTICE PUBLISHED BY THE SECRETARY OF STATE FOR TRADE AND INDUSTRY UNDER SUBSECTION 8(5) OF THE TELECOMMUNICATIONS ACT 1984

The Secretary of State hereby gives notice as follows.

1. She proposes to grant licences under the Telecommunications Act 1984 ("the Act") to Singtel (Europe) Ltd, Stentor Telecom Limited, GN Great Northern Gateway Ltd A/S, o2lo Communications Limited, Telia Danmark A/S, Transline Communications Limited, UTG Communications (Europe) AG, PSINet Telecom UK Limited, DirectNet Telecommunications Limited and Stentor Communications Limited ("the Licensees") to run international telecommunications systems in the United Kingdom. The Licenses will be for a period of six months, thereafter being subject to reversion on one month's notice.
2. The principal effect of each Licence will be to enable the Licensees to install and run telecommunications systems in the United Kingdom which may be connected to telecommunications systems outside the United Kingdom and to provide a wide range of international services but not any domestic services (i.e. services involving the conveyance of messages which originate and are subsequently to terminate in the United Kingdom) or mobile radio services. Each Licence authorises the connection to a wide range of other systems, including domestic systems and earth orbiting apparatus.
3. Each Licence will be subject to conditions such that section 8 of the Act will apply to it, thereby making each of the systems run under each Licence eligible for designation as a public telecommunications system under section 9 of the Act. It is the intention of the Secretary of State to designate each of the Licensees' systems as a public telecommunications system.
4. The Secretary of State proposes to grant each Licence in response to an application from each Licencee for such a Licence because she considers it will help to satisfy demands in the United Kingdom for the provision of services of the type authorised, will promote the interests of consumers in respect of the quality and variety of such services, and will maintain and promote effective competition between those engaged in the provision of telecommunications services.
5. Representations or objections may be made in respect of each of the proposed licences. They should be made in writing by 24 April 1998 and addressed to the undersigned at the Department of Trade and Industry, Communications and Information Industries Directorate, 257 Grey, 151 Buckingham Palace Road, London SW1W 9SS. Copies of the proposed licences can be obtained free of charge by writing to the Department (fax: 0171 215 1721) or by calling 0171 215 1725.

Alan Price
Department of Trade and Industry

26 March 1998

VOLKSWAGEN AG

Wolfsburg

Invitation to the Ordinary Annual Meeting of Stockholders

We have pleasure in inviting holders of ordinary and preferred shares to the Ordinary Annual Meeting of Stockholders to be held at 10.00 a.m. on Thursday, 4th June, 1998 at the Congress Centrum, Hanover, Am Dammtor, 20355 Hamburg.

Agenda:

1. Presentation of the confirmed financial statements, the consolidated financial statements, the Management Report and the Group Management Report for the year ended December 31, 1997, together with the Report of the Supervisory Board.
2. Resolution on appropriation of net earnings available for distribution.
3. Resolution on ratification of the actions of the Board of Management for the fiscal year 1997.
4. Resolution on ratification of the actions of the Supervisory Board for the fiscal year 1997.
5. Resolution on the conversion of nominal-value shares into individual share certificates (shares with no nominal value) at a ratio of 1:10, adjustment of the approved and potential capital stock, and the approved and potential stock, and the appropriate amendments of the Articles of Association.
6. Appointment of auditors for the fiscal year 1998.

ape creates arm to
webs site presence

COMPANIES & FINANCE: UK

BANKING SALARY, CASH AND SHARE PAYMENTS INCREASED DESPITE 29% FALL IN EARNINGS AND HEAVY LOSSES FROM UNRAVELLING OF BWB

Barclays executives paid large bonuses

By George Graham,
Banking Editor

Executives at Barclays, the UK banking group, accepted large bonus payments last year in spite of a 29 per cent drop in earnings per share and substantial losses in unravelling the group's BWB investment banking subsidiary.

Martin Taylor, chief executive, took salary, cash bonus

and shares totalling £976,000 (£1.63m), up £40,000 from 1996, in spite of the decline in Barclays' profits performance.

Mr Taylor also exercised the right to a bonus granted in 1994 worth an additional £762,000.

Andrew Buxton, chairman, increased his total package from £574,000 to £579,000. Sir Peter Middleton, deputy chairman, received a cash bonus of £120,000 on top

of his £286,000 salary, taking his total rewards to £855,000 compared with £428,000 in 1996.

Observers said that, as chairman of BWB, Sir Peter might have been expected to take some responsibility for the £250m loss Barclays took on the sale of its equities and advisory business and the £215m operating loss it accumulated in that business over the year.

Barclays also paid Bill Harrison £1.2m in salary and benefits last year. He became BWB's chief executive in September 1996, receiving £1.5m on joining. He left in October 1997 after the decision to sell its equities operations. In total, Barclays paid \$1m for Mr Harrison's 18 months of service.

Barclays' payments contrast with the policy of National Westminster Bank,

where Lord Alexander, the chairman, and Derek Wanless, chief executive, asked not to be considered for bonuses in light of the group's poor performance. Barclays' results were not as poor as NatWest's, but represented a substantial

adding that the executive directors' pay packages were "within market norms".

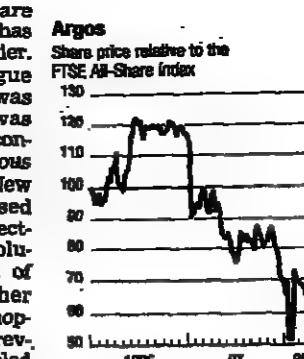
Bank officials said the increase in executives' pay had not exceeded total shareholder returns in the past three years.

"I know the profits were lower than the year before, but they were still good profits," a Barclays official said.

A little tender loving care from a seasoned retailer has left Argos looking healthier. The claim that catalogue retailing was outdated was always overstated. It was more a case of a decent deficit of retail skills. New man Stuart Rose's revised strategy sets about correcting this. It is hardly revolutionary - a better range of products, a shift to higher margins, an improved shopping experience - but no revolution is required. Coupled with a respectable trading statement, Mr Rose has done enough to ensure that hostile bidder GUS will not be allowed to buy on the cheap. Indeed, by unveiling the joint-venture agreement with Littlewoods, he has done more. Selling clothes and home furnishings to Argos' 16m customers is potentially a big new business. The fact that it also involves Littlewoods, GUS's main competitor, only adds to its value. Argos's freedom is still far from guaranteed, but GUS will need to raise its £70p bid if it is to prevail. Investors should hold on to their whole.

COMMENT

Argos



Renewing affection for GEC

Roger Taylor examines the reasons behind the group's share price recovery



Opening up: Lord Simpson

After eighteen frustrating months, the pieces may be beginning to fall into place for Lord Simpson, managing director of General Electric Company, the UK electronics and defence group.

The stock market certainly seems to believe so. When he took over, in September 1996, the share price was 380p. Last month, it was still at that level, despite months of what one director described as "the hardest work I have ever done in my life".

Now all of a sudden things are happening. In the last month the price has leapt from 375p to 465p at yesterday's close. The excitement is partly belated recognition for what has already been achieved. But there is also growing anticipation at the next move.

Last month the company arranged a euro-denominated credit facility for £650m (about \$8.7bn) to add to its cash pile of about £1.67bn. The deal was finalised yesterday giving the company the firepower it needs to carry out its plans.

Petrol was thrown on the fire of speculation when news came that the merger of US defence groups Lockheed Martin and Northrop Grumman had been blocked.

Suddenly huge new oppor-

tunities seemed to open up for GEC. At the least, it could hope to buy some of Lockheed and Northrop's businesses. At best, it might bid for Northrop.

Prior to this month, GEC's weak share price reflected a view that the company was moving too slowly and was being outmanoeuvred.

Lord Simpson had left investors waiting nine months after taking up the job before laying out his strategy last July.

By the start of 1998 several key planks in the strategy had yet to be revealed. Investors were beginning to tap their fingers. Some argued that Lord Simpson was a steady-nerved negotiator waiting until he saw the whites of the enemies eyes before firing. Others asked whether he was dozing on the job.

GEC protests that it has been making progress.

The GEC-Alsthom heavy engineering joint venture with Alsthom-Alsthom of France is due to be floated later this year.

The company has also

started negotiations with Siemens of Germany over its other large joint venture - the GPT telecommunications business.

The UK industrial division has been largely disbanded.

tion, some analysts have suggested this is no more than a second best option.

Analysts have also worried that politics have not been going GEC's way. The French, UK and German governments have agreed on the need for consolidation in the European defence industry. RAE has been putting itself forward as the natural hub of defence aerospace. In return, it is through the French might demand dominance of electronics.

The French government plans to create a defence business built around Thomson-CSF, incorporating telecoms and space from Alsthom, electronics from Dassault, and satellites from Aerospatiale.

Such notions infuriate GEC. John Mayo, finance director, insists that GEC is going to be "the only European global defence electronics business".

In his favour is the fact that, although Thomson-CSF is bigger than GEC in terms of defence electronics sales, GEC is far more profitable. Furthermore it has substantial business in the US. In contrast, Thomson-CSF's relations with the US defence establishment are relatively poor.

A big acquisition in the US could shift the tables strongly in GEC's favour, and transform the outcome for the industry as a whole.

Argos yesterday raised the stakes in its battle against the £1.5bn (£2.5m) cash bid from mail order house, Great Universal Stores, with plans to launch a fashion and furnishings catalogue in a joint venture with its predator's rival, Littlewoods.

Stuart Rose, the new chief executive of Argos, yesterday set out his strategy to modernise the high street catalogue retailer.

Unveiling a colourful, new-look catalogue, Mr Rose pledged to increase Argos's gross margin by one percentage point, introduce a comprehensive home shopping service, revamp the product range and improve the store environment - all without increasing costs.

He also revealed that Argos was in talks with the clothing retailer, Arcadia.

"All these things will enhance shareholder value in the short, medium and long term if shareholders decide to stay with us," he said.

Mr Rose reported that sales in the first 12 weeks to March 21 were 11.5 per cent ahead. "The core business is not the moribund, defunct business that GUS says it is," he said.

Mr Rose said the joint venture catalogue, to be called Argos Extra, would initially contain fashion from Littlewoods' successful Index Extra direct-mail business.

Eventually, it would build up products available only to Argos customers.

However, if GUS wins its 570p a share bid, the joint venture would be abandoned.

GUS accused Argos of entering a "shotgun wedding" with Littlewoods.

A little tender loving care from a seasoned retailer has left Argos looking healthier. The claim that catalogue retailing was outdated was always overstated. It was more a case of a decent deficit of retail skills. New man Stuart Rose's revised strategy sets about correcting this. It is hardly revolutionary - a better range of products, a shift to higher margins, an improved shopping experience - but no revolution is required. Coupled with a respectable trading statement, Mr Rose has done enough to ensure that hostile bidder GUS will not be allowed to buy on the cheap. Indeed, by unveiling the joint-venture agreement with Littlewoods, he has done more. Selling clothes and home furnishings to Argos' 16m customers is potentially a big new business. The fact that it also involves Littlewoods, GUS's main competitor, only adds to its value. Argos's freedom is still far from guaranteed, but GUS will need to raise its £70p bid if it is to prevail. Investors should hold on to their whole.

Utilities
Thankfully, the UK government's green paper on utility regulation has proved a damp squib. Populist ideas aired in opposition - like sharing excess profits - have been scrapped. And some of the remaining proposals look modestly useful. Take, for example, the requirement for the government to spell out its social and environmental objectives in relation to the utilities. That might look like dangerous meddling in the independence of the regulators. But it could make transparent a process that already takes place through nudges and winks. Moreover, any social measures that have significant financial implications for companies or consumers will need to be debated and voted on in parliament. That is right, as they can in effect amount to a tax.

If there is one niggle, it is the idea for a mechanism to hand windfall profits that land in companies' laps to customers. The government seems to assume these are always profits. But what happens if there are windfall losses? To be symmetrical, customers should pick those up too - hardly a clever idea. Fortunately, the government's thinking seems so woolly that the scheme may be quietly shelved.

EasyJet buys 40% Swiss stake

By Michael Shiplake,
Aerospace Correspondent

EasyJet, the low-cost airline, will announce today that it has bought a 40 per cent stake in TEA Switzerland, a Swiss charter carrier with four leased Boeing aircraft.

The purchase, for an undisclosed sum, comes as EasyJet faces increased competition from the planned launch of Go, British Airways' low cost carrier.

EasyJet is also concerned about congestion at its base at London's Luton airport.

EasyJet has an option to increase its stake in TEA to 90 per cent, which will be permitted if Switzerland con-

cludes an "open skies" agreement with the European Union.

EasyJet wants to relaunch TEA as a low-cost, no frills operator called EasyJet Switzerland.

Stelios Haji-Ioannou, EasyJet's chairman, said yesterday that "a lot of work has to be done to turn the company into a low cost scheduled carrier".

Mr Haji-Ioannou said he would be asking the International Lease Finance Corporation, the Los Angeles-based company from which TEA leases its aircraft, for a reduction in lease rates.

He said that EasyJet would also be asking Geneva airport for lower charges in

return for the establishment of new services. Geneva has suffered from the loss of several Swissair routes.

Mr Haji-Ioannou, the heir to a Greek shipping fortune, launched EasyJet at Luton in 1996, attracted by the UK's flexible labour force and low costs. While determined to keep the company's headquarters in the UK, he has also been looking for additional European hubs.

An attempt to acquire Air Holland and establish a new base in Amsterdam failed recently when minority shareholders exercised their right of first refusal and bought the company instead.

He has also expressed an interest in establishing a hub in Athens.

Quarry swap boosts Tarmac

By Jonathan Gash

A recovery in construction and better building products prices helped Tarmac, the UK's largest aggregates group, raise 1997 profits to the top of City expectations.

Pre-tax profits grew 69 per cent to £120m, with the increase far greater than an exceptional charge of £65m in 1996 for restructuring was included. Tarmac swapped its housebuilding side for Wimpey's quarrying and construction in November 1996, prompting a wholesale reorganisation.

The company said the shake-up had unlocked annual cost savings of £40m, twice original estimates. It announced a final dividend of 2.65p, making 5.65p (5.5p) for the year - the first increase since 1990.

St Neville Simms, group chief executive, said "it was important to reward shareholders for staying with us."

"This group is finally getting it together," said one analyst.

Tarmac raised operating profits from construction 53 per cent to £28.2m. Margins on sales grew from 1 to 1.8 per cent, ahead of industry norms and partly the result of taking on fewer loss-making projects.

Operating profits from heavy building materials jumped 19.4 per cent to £142m after price increases and a margin improvement from 10.5 to 11.9 per cent on the back of cost-cutting. Sales rose just 5 per cent to £1.15bn.

Sir Neville said Tarmac could spend at least another £45m on buildings materials acquisitions in 1998, bringing the total above £250m.

Group turnover rose 4 per cent to £277m. Gearing fell from 45 to 37 per cent. Earnings per share before exceptional items grew 2.8p to 8.3p. The shares rose 3p to 11.9p.

LucasVarity buy signalled

By Andrew Edgecliffe-Johnson

LucasVarity has restructured about £250m (£350m) of its bank debts in a move which may indicate it is preparing for a large acquisition. The car components group has scope for about £200m of acquisitions following the 200m sale of its Variolyt Perkin's diesel engine business to Caterpillar in the US in December.

LucasVarity, which reports full year results next Tuesday, would not comment.

ment yesterday, but it is believed to have set up a revolving facility to replace a number of existing bilateral arrangements. At present it is unguaranteed.

The group is eager to strengthen its position in the automotive and aerospace markets through acquisitions, but recent speculation that it could bid for the brakes division of ITT in the US is wide of the mark. The overlap between the US industrial group and LucasVarity would create insuperable anti-trust problems.

Victor Rica, LucasVarity's chief executive, has cautioned analysts that sales growth in the full year would be modest, and that sales would drop in the fourth quarter because of a fall in the number of working days. LucasVarity, which was formed in September 1996 by the combination of Lucas Industries of the UK and Varity Corporation of the US, is expected to meet its target of £400m merger-related savings in 1997.

LEGAL NOTICE
PINE TOP INSURANCE
LIMITED
ON SCHEMES OF ARRANGEMENT
130 Milton Road, BIRMINGHAM, B15 2JL
Phone 071 699 8628 Fax: 071 699 8630
CLAIMS HANDLING DEPARTMENT
NORTH AMERICA
NOTICE IS HEREBY GIVEN that the members of the above named company are required, under the terms of the Scheme of Arrangement, to file, in the court of claims before the claims extension deadline of the 30th April 1998.

All known creditors have been provided with the required claim form, a copy of which is attached to this notice. If you believe you are a creditor of the above named company and have not received a claim form, please contact the company at the above address.

All claims and claims forms must be received by the court of claims before the 30th April 1998. Proof of claim forms not received by that date will not be entitled to make any claim. The court of claims will be responsible for the costs of the scheme.

MEESPIERSON N.V.
Rokin 55
1012 KK Amsterdam
The Netherlands

which acts as Paying Agent on behalf of the undersigned.

March 26, 1998.

MEESPIERSON TRUST (CURAÇAO) N.V.

BUSINESSES FOR SALE

Appear in the Financial Times
every Tuesday, Friday and Saturday.

For further information, or to advertise in this section,
please contact

Marion Wedderburn on +44 0171 873 4874
or Melanie Miles on +44 0171 873 3349

ALTRAN TECHNOLOGIES
IS NOW QUOTED
ON THE PARIS
MAIN MARKET

Why the "RÉGLEMENT PENSUEL" ?
Since its introduction on the Second Marché in October 1987, Altran Technologies has increased its market capitalisation 36-fold to 7,466 MF on the 18th of March 1998, raised average daily volume of transactions to over 10 MF in the first quarter of 1998, boosted turnover 16-fold to 1,911 MF in 1997, raised net result before amortisation of goodwill approximately 10% each year, expanded to 10 European countries, Altran Technologies is the French leader in Total Shareholder Return (TSR) over 5 years, according to a May 1997 Boston Consulting Group survey. The annual actual TSR is 25%.

This figure measures overall share profitability as it includes its buying price, paid dividends and complete added value.

ALTRAN
TECHNOLOGIES
European Leader in Telecommunications

How will the transfer work?
• A March 25th transfer.
• A four-way stock split from

INTERNATIONAL CAPITAL MARKETS

Europe ends volatile session little changed

GOVERNMENT BONDS

By Vincent Boland in London and John Labate in New York

Markets ended a volatile trading session yesterday broadly unchanged after good early gains in Europe were wiped out by a poor opening performance from US Treasuries, which were slippage ahead of a bond auction.

The day had begun on a positive note for European markets after the release of long-awaited reports on monetary union from the European Monetary Institute and the European Commission, neither of which contained any surprises. However, most of the celebration of the confirmation that 11 countries were to join the euro from the outset was among politicians.

"This massive historical event [launching the euro] has been met with a yawn on the bond markets," said Phyllis Reed, international bond strategist at Barclays Capital.

Nevertheless, as if to coincide with the occasion and set some sort of bond market benchmark for it, yields on 10-year German government bonds touched new lows.

The Dutch central bank emerged as the day's spoil-sport, casting doubt on Italy's credentials for Euro membership. It said there were still questions over Italy's budget proposals and whether they would be ratified by parliament.

The Dutch report may give an insight into what the Bundesbank might say when it brings forward its own summary of Emu, due tomorrow, Ms Reed noted.

"The Dutch criticised Italy and Belgium quite strongly, and that could be a pretty good steer for the Bundesbank report," she said, adding that a critical German report would upset the markets, whose mood remains optimistic.

ITALIAN BTPs did not react much to the EMU and EC reports yesterday, but they were volatile enough. The June future settled just 0.14 higher in moderate trading at 119.69, but had been as high as 120.10. Analysts said the break above 120 may have triggered profit-taking.

The spread over 10-year bonds, meanwhile, was 24 basis points, down 3 points.

GERMAN BUNDs ended flat. The June contract settled unchanged at 107.77 after rising to an all-time high and then sinking on the back of the US market. How-

ever, activity in the futures market was much higher than in recent sessions, with some 460,000 contracts traded in Frankfurt by early evening.

The early surge, which had seen the future jump through 108 to touch 108.16, had taken the yield on 10-year bonds to 1.8 per cent, which analysts said was its lowest level since at least the late 1980s, before closing at 1.86 per cent, after more evidence of the generally positive outlook for German inflation and interest rates.

UK GILTS also ended unchanged, with the June future settling at 108¹⁴ in Liffe trading, having been as high as 108¹². Volume was also up on recent trading sessions, though still relatively modest at 90,000 contracts.

The mood was positive, however, underlined by heavy oversubscription for an auction of £2bn of 10-year gilts, which traders said attracted 26bn of demand.

FRENCH BONDS gave up some of the outperformance they showed on Tuesday. The notional June future settled in Paris at 104.10, down 0.12, in another quiet session. Analysts said the market did not react to the EMU and EC reports because all the positive Emu news has been priced into OATs for some time.

US TREASURIES pulled back in morning trading ahead of an auction of five-year notes. By early afternoon the benchmark 30-year bond had slipped to 102¹⁴, sending the yield up to 5.92 per cent.

Prices were lower among shorter-term issues as well.

Lynch

NEWS DIGEST

OTC DERIVATIVES TRADING

CBOT sees greenhouse gas emission contracts

An embryonic "over-the-counter" market in carbon dioxide emission-related derivatives appears to be developing ahead of any official enabling legislation, according to officials at the Chicago Board of Trade, the largest futures market.

Richard Sandor, chairman of the exchange's new products committee, said yesterday that around seven or eight OTC contracts had been traded recently, including monetisation of a tract of Costa Rican rainforest and an options transaction arranged by a Canadian firm.

The idea of emissions trading for greenhouse gases, on an intra-nation basis, was heavily pushed by the US when last year's global warming accord was drawn up in Kyoto, Japan, though concern has been voiced that this would regularise and perhaps pollute.

The CBOT added yesterday that it was still studying how carbon dioxide emissions trading might work, but reconfirmed its willingness to run an auction "and ultimately a futures market" if enabling legislation was passed. Rules for emissions trading are expected to be addressed at this year's international climate conference in Buenos Aires, in November.

The comments came as the Chicago exchange yesterday announced the result of the sixth annual annual sulfur dioxide emission auction, which it runs on behalf of the US Environmental Protection Agency. Cantor Fitzgerald, the US-based brokerage business, secured the bulk of both the spot allowances and the seven-year advance allowances, successfully bidding for 73.3 per cent of the former and 99.9 per cent (or all but five) of the latter.

Prices offered by Cantor, a newcomer to allowance auctions, helped drive prices generally. The clearing, or cut-off, price for spot allowances, for example, was 9 per cent higher than recent OTC prices. Spot allowances can be used in the year they are sold to help meet sulfur-dioxide emission compliance requirements. Nikki Tait, Chicago

CREDIT RATINGS

Moody's downgrades Malta

Moody's has downgraded Malta's credit rating from A2 to A3. The island's sovereign investment grade status is unchanged. The decision follows concern over Malta's £100m budget deficit. The government of Alfred Sant, prime minister, has announced tough economic measures, including steep water and energy rate increases and cuts in government spending to restore order to state finances. The deficit on current account is expected to take two years to trim from the current 11 per cent to 5 per cent.

Moody's decided to review Malta's credit rating after a decision by the Malta Freeport Corporation to convert a short-term \$200m international loan to long term. John Attard Montalto, minister for finance and commerce, said the review would have a minimal effect on the pricing of borrowings. "Moody's, which carried out intensive meetings in Malta last month, has recognised the government's commitment effectively to address the fiscal deficit," he said. Godfrey Grima, Valletta

KfW launches global offering of DM4bn

INTERNATIONAL BONDS

By Samer Iskander

KfW, Germany's state development agency, yesterday capitalised on its improved creditworthiness to launch its first global bond. At DM4bn, the issue was also the borrower's largest deal to date.

From April 1, KfW's debt will benefit from an unconditional government guarantee. In recent weeks, existing KfW bonds in the D-Mark and dollar sectors have seen their yield spreads tighten by a couple of basis points in anticipation of the change.

Merrill Lynch joint lead manager with Deutsche Bank, said a positive response to roadshows in east Asia and the US allowed

Borrowers saw a window of opportunity in two-year sterling, where yields are attractive due to the inversion of the yield curve.

BRITISH PETROLEUM raised £150m, with J.P. Morgan and Lehman Brothers as lead managers. Lehman then replicated the structure to fulfil the needs of BG, one of the two companies resulting from the recent demerger of British Gas.

The two identical bonds were reoffered at slightly different prices, however, to reflect the borrowers' credit ratings. BP, with double-A and Standard & Poor's, was sold at a spread of 45 basis points over gilts maturing in December 2000. BG, with ratings of A2 and A+, was reoffered at 53 basis points.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Mar 25	Ref. date	Coupon	Bid	Offer	Day chg	Wk chg	Month chg	Yr chg
Australia	94/00	7.000	102.8861	102.98	-0.01	-0.01	-0.13	-1.41
	10/07	10.000	102.7674	102.81	-0.04	-0.10	-2.28	
Austria	98/00	7.000	104.0749	104.07	-0.08	+0.04	+0.03	-0.01
	07/07	5.820	106.0100	106.01	0.48	+0.01	-0.11	-0.05
Belgium	01/00	4.000	98.8800	98.88	-0.07	-0.08	-0.05	-0.28
	03/07	10.1800	101.5000	101.50	-0.02	-0.07	-0.11	-1.08
Denmark	98/00	4.750	98.8800	98.88	-0.04	-0.04	-0.23	-1.19
	08/07	7.250	113.8000	113.80	-0.51	-0.04	-0.04	-0.18
Finland	10/00	6.000	102.8799	102.90	-0.04	-0.02	-0.18	-0.28
	11/07	7.000	114.1000	114.10	-0.11	-0.14	-0.21	-0.21
France	98/00	4.000	102.8799	102.88	-0.04	-0.04	-0.23	-1.19
	08/07	7.250	113.8000	113.80	-0.51	-0.04	-0.04	-0.18
Germany	98/00	4.000	102.8799	102.88	-0.04	-0.04	-0.23	-1.19
	08/07	7.250	113.8000	113.80	-0.51	-0.04	-0.04	-0.18
Iceland	01/00	11.000	102.6510	102.65	-0.02	+0.09	-0.01	-0.31
	04/07	7.250	116.0237	116.02	-0.40	-0.01	-0.14	-0.22
Ireland	01/00	4.000	98.9888	98.98	-0.01	-0.08	-0.04	-0.15
	05/07	8.750	111.7500	111.75	-0.93	-0.01	-0.05	-0.72
Italy	01/00	4.000	102.8799	102.88	-0.04	-0.04	-0.23	-1.19
	08/07	7.250	113.8000	113.80	-0.51	-0.04	-0.04	-0.18
Japan	01/00	4.000	102.8799	102.88	-0.04	-0.04	-0.23	-1.19
	08/07	7.250	113.8000	113.80	-0.51	-0.04	-0.04	-0.18
Malta	01/00	4.000	102.8799	102.88	-0.04	-0.04	-0.23	-1.19
	08/07	7.250	113.8000	113.80	-0.51	-0.04	-0.04	-0.18
Netherlands	01/00	4.000	102.8799	102.88	-0.04	-0.04	-0.23	-1.19
	08/07	7.250	113.8000	113.80	-0.51	-0.04	-0.04	-0.18
Portugal	01/00	4.000	102.8799	102.88	-0.04	-0.04	-0.23	-1.19
	08/07	7.250	113.8000	113.80	-0.51	-0.04	-0.04	-0.18
Spain	01/00	7.000	102.8799	102.88	-0.04	-0.04	-0.23	-1.19
	08/07	7.250	113.8000	113.80	-0.51	-0.04	-0.04	-0.18
Sweden	01/00	4.000	102.8799	102.88	-0.04	-0.04	-0.23	-1.19
	08/07	7.250	113.8000	113.80	-0.51	-0.04	-0.04	-0.18
UK	01/00	4.000	102.8799	102.88	-0.04	-0.04	-0.23	-1.19
	08/07	7.250	113.8000	113.80	-0.51	-0.04	-0.04	-0.18
Yugoslavia	01/00	4.000	102.8799	102.88	-0.04	-0.04	-0.23	-1.19
	08/07	7.250	113.8000	113.80	-0.51	-0.04	-0.04	-0.18
Other	01/00	4.000	102.8799	102.88	-0.04	-0.04	-0.23	-1.19
	08/07	7.250	113.8000	113.80	-0.51	-0.04	-0.04	-0.18
Yugoslavia	01/00	4.000	102.8799	102.88	-0.04	-0.04	-0.23	-1.19
	08/07	7.250	113.8000	113.80	-0.51	-0.04	-0.04	-0.18
Other	01/00	4.000	102.8799	102.88	-0.04	-0.04	-0.23	-1.19
	08/07	7.250	113.8000	113.80	-0.51	-0.04	-0.04	-0.18
Other	01/00	4.000	102.8799	102.88	-0.04	-0.04	-0.23	-1.19
	08/07	7.250	113.8000	113.80	-0.51	-0.04	-0.04	-0.18
Other	01/00	4.000	102.8799	102.88	-0.04	-0.04	-0.23	-1.19
	08/07	7.250	113.8000	113.80	-0.51	-0.04	-0.04	-0.18
Other	01/							

CURRENCIES & MONEY

Yen advances on intervention talk

MARKETS REPORT

By Simon Kuper

The yen jumped against the dollar yesterday, helped by talk that the Bank of Japan might intervene to support its currency when the latest Japanese fiscal stimulus package appears today.

One US political consultant pointed out that the bank had intervened against the dollar on December 17, after Japan had unveiled a larger than expected stimulus package. The bank had also sold dollars last Friday, and is thought to regard Y130 as its upper tolerance level for the US currency. Today's package is expected to be worth about Y100,000bn.

The talk drove the yen Y1.5 higher to close in London at Y128.9 against the dollar.

But the long-awaited reports on convergence by the European Commission and the European Monetary

Institute were received by currency traders with loud yawns. The Commission's report backed a start to European monetary union with 11 members, while the EMI raised a quibble about Italy's high foreign debt without suggesting that the country should be barred from Emu.

But sterling moved entirely in tandem with the dollar yesterday, dropping 0.4 pence against the D-Mark to DM2.062.

The National Bank of Poland intervened for the second day running to weaken the zloty, which is rising on the back of interest rates of more than 20 per cent.

Will sterling have to join the ERM before joining Emu? The trauma of Black Wednesday in 1992, when the pound was expelled from the mechanism, is still too great for any UK government to risk re-entry.

Some Euro-ologists believe that if the UK wants to join Emu it would have to. They cited the Commission's report, which stated that Sweden could not enter Emu early because the krona was outside the ERM.

However, the Commission

for two years before entering Emu.

But sterling moved entirely in tandem with the dollar yesterday, dropping 0.4 pence against the D-Mark to DM2.062.

The National Bank of Poland intervened for the second day running to weaken the zloty, which is rising on the back of interest rates of more than 20 per cent.

Will sterling have to join the ERM before joining Emu? The trauma of Black Wednesday in 1992, when the pound was expelled from the mechanism, is still too great for any UK government to risk re-entry.

Some Euro-ologists believe that if the UK wants to join Emu it would have to. They cited the Commission's report, which stated that Sweden could not enter Emu early because the krona was outside the ERM.

However, the Commission

also said that Italy could join Emu, even though it had only been in the ERM for 15 months, because it had fulfilled the criterion laid down in the Maastricht treaty of having kept its currency stable for two years prior to entry.

Finland too is expected to enter despite having joined the ERM just a month before Italy.

Paul Meggyesi, senior cur-

rency economist at Deutsche Morgan Grenfell in London, said he could not imagine the pound ever being barred from Emu simply on the grounds that it had stayed out of the ERM. The Emu process had been so full of fudge that the other countries would surely be willing to waive the ERM issue in order to admit a country as significant as the UK. All Britain would have to do would be to keep its currency quiet.

Tony Blair, UK prime minister, reiterated yesterday that it would do no more than that. Addressing the House of Commons in English, he said: "We have the reduced chance of sterling having to enter the ERM two years before joining Emu in about 2001. When the pound joins the ERM or not, it is expected to do so at a rate of about DM2.60. We cited the short-term prospects.

Sterling is less than 3 pence below the five-and-a-half year peak it hit against the D-Mark in July.

WORLD INTEREST RATES

MONEY RATES

Mar 25	Over night	One month	Three months	Six months	One year	Long int.	Dis. rate	Repo rate
Belgium	2.9	3.9	3.9	3.9	3.9	6.00	2.75	-
France	2.9	3.4	3.9	3.9	3.9	4.50	2.50	3.30
Germany	3.9	3.9	3.9	3.9	3.9	4.50	2.50	3.30
Ireland	5.9	5.9	5.9	5.9	4.9	7.00	5.50	-
Italy	5.9	5.9	5.9	5.9	4.9	7.00	5.50	3.30
Netherlands	4.9	5.9	5.9	5.9	5.9	7.00	5.50	1.00
Spain	1.9	1.9	1.9	1.9	1.9	6.00	5.00	-
UK	5.9	5.9	5.9	5.9	5.9	6.00	5.00	-
Japan	8	8	8	8	8	8	8	0.50

ME 3 LONDON LIBOR London interbank offering rate with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

ME rates are shown for the domestic Money Rates, ME 3 Libor, ME 3 LIBOR Deposit rates.

The FT has agreed to use the ME 3 LIBOR rates with the EMA London rate. Any amounts should be used in sterling. Figures, Financial Editor, or the ME 3 LIBOR rates are available for the domestic Money Rates, ME 3 Libor, ME

COMMODITIES & AGRICULTURE

Oil prices rise on news of Opec meeting

MARKETS REPORT

By Paul Solman and Kenneth Goding

World oil prices rose yesterday after the Organisation of Petroleum Exporting Countries confirmed it would meet next week to approve cuts in production.

The emergency conference, to be held in Vienna on March 30, is expected to ratify the agreement reached in Riyadh at the weekend. The deal is intended to support prices by cutting global output by 1.7m barrels a day.

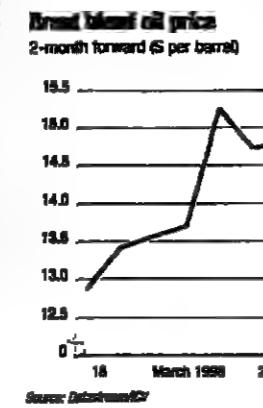
Omid bin Saif al-Nasser, United Arab Emirates oil minister, said talks were under way to invite some non-Opec nations. The Riyadh agreement, led by Saudi Arabia, Venezuela and Mexico, includes the 11 Opec members as well as non-member nations.

In late trading on London's International Petroleum Exchange, the May contract was trading at \$14.92 a barrel yesterday, against Tuesday's close of \$14.53. It jumped about \$2 on Monday after the Riyadh agreement was announced, but fell back on Tuesday.

Russia said yesterday it would not join international efforts to cut production. In a news conference interview, Sergei Kiriyenko, acting prime minister, said Russia "definitely cannot allow a fall in oil production". The Riyadh agreement had assumed Russia would cut output by 100,000 barrels a day.

Norway, the second largest oil exporter after Saudi Arabia, has also not decided whether to join the pact.

The rise in platinum to an 18-year peak ended yesterday, and the metal closed in London \$10.75 a troy ounce lower than Tuesday's close at \$27.50.



Source: International

Dealers said palladium's price began to fall before Mr Labadie made his comments.

One said: "There is a definite lack of buying and I suspect there probably has been some producer selling."

A warning that lead prices were likely to rise sharply was given by Martin Squires, analyst at Rudolf Wolff, the Noranda subsidiary, in a special report.

He said London Metal Exchange stocks have fallen by 8 per cent, or 10,000 tonnes, this year to their lowest for 20 months. Commercial stocks represent just 4.3 weeks of consumption.

"Stocks were last at these levels in April, 1990, when the lead price was above \$800 a tonne," he said, adding that the price could easily move above \$800. Three-month lead closed last night at \$563.

COMMODITIES PRICES

BASE METALS

Prices from Associated Metal Trading

in ALUMINUM, SELL PRICE (\$ per tonne)

Cash

Close

Previous

High/low

Avg/Official

Kerb close

Open int.

Total daily turnover

Net daily turnover

in LEAD (\$ per tonne)

Close

Previous

High/low

Avg/Official

Kerb close

Open int.

Total daily turnover

Net daily turnover

in IRON (\$ per tonne)

Close

Previous

High/low

Avg/Official

Kerb close

Open int.

Total daily turnover

Net daily turnover

in COPPER, Grade A (\$ per tonne)

Close

Previous

High/low

Avg/Official

Kerb close

Open int.

Total daily turnover

Net daily turnover

in ZINC, special high grade (\$ per tonne)

Close

Previous

High/low

Avg/Official

Kerb close

Open int.

Total daily turnover

Net daily turnover

in GOLD (\$ per tonne)

Close

Previous

High/low

Avg/Official

Kerb close

Open int.

Total daily turnover

Net daily turnover

in PRECIOUS METALS

in LONDON METAL EXCHANGE

(Prices supplied by N M Rothschild)

Gold (Troy oz)

Silver (Troy oz)

Copper (Troy oz)

Zinc (Troy oz)

Lead (Troy oz)

Copper (Troy oz)

Nickel (Troy oz)

Copper (Troy oz

Offshore Funds and Insurances

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

FT MANAGED FUNDS SERVICE

LUXEMBOURG (REGULATED) (**) Sales: \$1.000											
Merill Lynch Asset Management - Contd.											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio											
Corporate Bond Portfolio</b											

FT MANAGED FUNDS SERVICE

• FT Clydesdale Unit Trust Prices are available over the telephone. Call the FT Clydesdale Help Desk on 0-800 1770 000 000 for more details.

Offshore Insurances and Other Funds

LONDON SHARE SERVICE

LONDON SHARE SERVICE

Yals oppose
TS merger

FT TRUSTS SPLIT CAPITAL - Continued									
Notes									
M & G Recovery Inc. - 7									
Gardiner Corp. - 7									
PacifiCorp Units - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									
MTC Inc. - 7									

LONDON STOCK EXCHANGE

Valuation and interest rate worries upset leaders

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

The London market's upward march, which saw the FTSE 100 move briefly back through the 6,000 level, was halted yesterday as institutions were reminded of the potential for further increases in domestic interest rates and of stretched valuations for UK stocks.

But there were no such restrictions for the market's second and third-tier stocks which maintained their seemingly relentless

advances to new intra-day and closing peaks.

One of the leading strategy teams agreed with the more cautious view of the market. NatWest Markets' Bob Semple and David McBain said in their latest market commentary: "Valuations have become more demanding and there are considerable risks that corporate profits will disappoint on the downside. Moreover, the latest institutional cash flow data are also weaker than expected. Our conclusion is that the market is now due for a period of consolidation."

As the dust settled on

another day of rather erratic movements in the leaders, the FTSE 100 index finished 15.9 off at 5,867.8, having swung in a near-50 point arc.

Prices raced ahead at the outset before coming off to hit the day's low point just before the close. There was some relief that the gilt auction proved successful. The market keeps going up and is being driven by weight of money which you simply cannot argue with. But if that inflow suddenly stops then there will be short-term problems," was the view of one market-maker in London.

He said there were plenty

of potential problem areas but insisted any turbulence would most likely start in bond markets.

The next meeting of the US Federal Reserve's open market committee is next week. And a highly regarded economist, Gavyn Davies of Goldman Sachs, told a House of Commons select committee on Tuesday that UK interest rates needed to rise to ensure the government's inflation target was met.

The second-line stocks, meanwhile, moved higher throughout the day. The FTSE 250 index eventually settled 21.1 up at a new

intra-day and closing peak of 5,544. Similarly, the FTSE SmallCap closed the session at new intra-day and closing records, up 12.4 at 2,625.2.

The 250 index was helped along by a spate of positive company news items, with House of Fraser, the department store chain, posting better-than-expected profits and Barratt Developments continuing the list of excellent profits performances from the housebuilders.

Turnover in equities came in at \$65.4m, split evenly between the FTSE 100 stocks and others. Shell was the busiest stock in the Footsie.

Water stocks in demand

COMPANIES REPORT

By Joel Khan and Martin Bristow

Utilities investors favoured water stocks yesterday, helping shares in the sector move strongly ahead.

United Utilities was a feature after the company and Canada's Northern Telecom announced a joint venture to market their Digital PowerLine communications technology worldwide. A United Utilities statement said the technology allows high-speed internet access and other data transfer such as multimedia, on-line banking and shopping and entertainment. Shares in the UK group rose 26 to 88.1p in trade of 3.4m.

Kevin Lapwood at Charterhouse Tilney said: "It was evident from the presentation [yesterday] that Northern Telecom is very positive on prospects for the technology. But United Utilities appears to be more cautious in the short term."

As dealers waited for publication of the government's green paper on the regulated utilities (which came towards the end of the session), there was also a feeling that several water stocks had underperformed the market recently and were "looking cheap".

These included Severn Trent, which gained 28 to 61.28, and Hyder, 15 higher at 977.4p.

Thames Water, which held a briefing for analysts on Tuesday, gained 12 to 972p. Brokers at the meeting indicated that both the group's international and regulated businesses were trading well. Dresdner Kleinwort Benson was said to be positive on Anglian Water. The shares rose 24 to 930p.

The market appreciated the return to profits at retailer House of Fraser, which unveiled pre-tax profits for 1997 of £28.3m compared with losses of £28.4m

in the previous year, in line with analysts' expectations.

The shares, which have fallen sharply since the beginning of the year following disappointing Christmas trading figures, rose 14% or 9.32 per cent to 170p yesterday on volume of 2.9m. Analysts expect profits this year to be around the £35m mark.

Speculation that a strong trading statement from bid target Argos could put pressure on predator Great Universal Stores to raise its £1.6bn (or 570p) hostile bid for the UK retailer did the rounds in the market yesterday.

Dealers were cheered by

Argos's announcement that sales for the 12 weeks to March 21 were up 11.5 per cent overall and 4.8 per cent on a like-for-like basis.

Talk in the market suggested GUS may have to increase its bid to about 630p on a like-for-like basis.

Argos' shares eased 2 to 177p.

Boots improved 14% to 499.5p on reports that Dresdner Kleinwort had reiterated its "buy" recommendation on the stock. The retail team at the broker were reported to have said the stock looked attractive given its defensive qualities at a time when the UK economy was expected to slow.

Marks and Spencer, which yesterday announced changes in responsibilities among its directors, gained 18% to 619.5p.

Profit-taking left Williams the worst performer in the FTSE 100, off 24% at 428.5p.

Engineering group Glynwood International fell 9% to 265p after NatWest Markets advised investors to "reduce" holdings.

In a note to clients, the broker said: "Short-term trading is under pressure in

the commodity metals business and is likely to get worse before it gets better, increasing earnings uncertainty. However, management's announcement of an ambitious portfolio change has sparked a value-release story. The risk is that the investment opportunities do not meet expectations."

Constructors firm

Construction-related stocks confirmed strength in the UK housing and building market as Barratt Developments achieved one of the best performances in the FTSE 250. The stock rose 13 to 318p following strong results that prompted "buy" comments from brokers. The £24.4m interim pre-tax figure exceeded most forecasts and led to some upgrades, taking full-year forecasts to about 293m-295m.

The company also said reservations were the highest for a decade and the housing market was stabilising, with the improvement spreading out from the south-east.

Linden, the Fledgling housebuilder, rose 18 to 193p after good results.

Profit-taking was blamed for the decline in Ladbrooke Group, which fell 16 to 349p.

Shire Pharmaceuticals Group jumped 45% to 406p after it said it had completed a global offering of 21m shares at 343p.

Lack of further takeover news saw Savoy left the hotel group's "A" shares 135 off at £16.65.

Shares in media group Carlton Communications slipped 5 or 5.15 per cent to 460p after NatWest Securities were said to have downgraded the stock from a "hold" to a "reduce" rating.

Profit-taking was blamed for the decline in Ladbrooke Group, which fell 16 to 349p.

Shire Pharmaceuticals Group jumped 45% to 406p after it said it had completed a global offering of 21m shares at 343p.

BLP, the wood and veneer group, rose 14 to 194p after good results.

Siebe confirmed what some traders have been tell-

ing clients about fears of the fallout from Asia resulting in engineering stocks being oversold in the run-up to the results season. The company announced £170m of new contracts and made a bullish trading statement saying it was still achieving growth in Asia. The shares rose 17p before closing up 6 on the day at 513.12.

One of the best performances in the Footsie came from Railtrack after it announced higher-than-expected growth forecasts in passenger demand and freight volumes over the next 10 years. Railtrack's shares rose 42% to 210.33p, bursting back through the 200p bar not surpassed since December.

The statement that the company was ahead of spending plans it had agreed with the rail regulator was also seen as going some way towards easing regulatory problems.

Fears of increased regulation took their toll on the stock in the run-up to the election of the Labour government last year, but as investor fears eased the shares recovered. Yesterday's announcement was welcomed because of the transparency of Railtrack's investment plans and for its prediction that passenger rail demand would rise 15 per cent within 10 years.

Shares in media group Carlton Communications slipped 5 or 5.15 per cent to 460p after NatWest Securities were said to have downgraded the stock from a "hold" to a "reduce" rating.

Lack of further takeover news saw Savoy left the hotel group's "A" shares 135 off at £16.65.

Shares in media group Carlton Communications slipped 5 or 5.15 per cent to 460p after NatWest Securities were said to have downgraded the stock from a "hold" to a "reduce" rating.

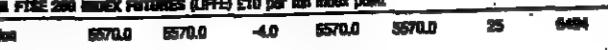
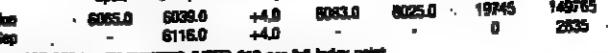
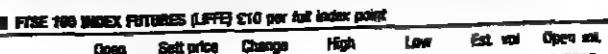
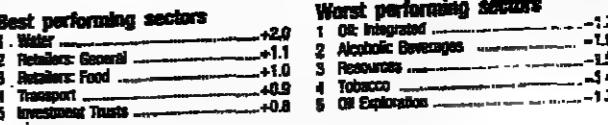
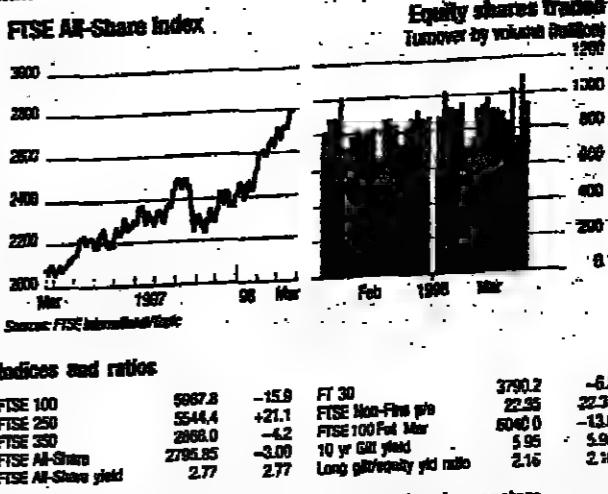
Linden, the Fledgling housebuilder, rose 18 to 193p after good results.

Profit-taking was blamed for the decline in Ladbrooke Group, which fell 16 to 349p.

Shire Pharmaceuticals Group jumped 45% to 406p after it said it had completed a global offering of 21m shares at 343p.

BLP, the wood and veneer group, rose 14 to 194p after good results.

Siebe confirmed what some traders have been tell-



Mar 25 Data based on Equity shares listed on the London Stock Service.

STOCK MARKET TRADING DATA

Mar 25 Mar 24 Mar 23 Mar 20 Mar 19 Yr 2000

FTSE 100 3782.7 3781.7 3780.1 3775.6 3786.7 3848.1 3780.2 3784.4

FTSE 250 2.81 2.83 2.82 2.82 2.82 2.80 2.80 2.80

FTSE 300 2.92 2.90 2.89 2.88 2.88 2.87 2.86 2.86

FTSE 500 2.93 2.92 2.91 2.90 2.90 2.89 2.88 2.88

FTSE 1000 2.89 2.88 2.87 2.86 2.86 2.85 2.84 2.84

FTSE 1000 All Share 2.84 2.83 2.82 2.81 2.81 2.80 2.79 2.79

FTSE 250 All Share 2.84 2.83 2.82 2.81 2.81 2.80 2.79 2.79

FTSE 300 All Share 2.83 2.82 2.81 2.80 2.80 2.79 2.78 2.78

FTSE 500 All Share 2.82 2.81 2.80 2.79 2.79 2.78 2.77 2.77

FTSE 1000 All Share 2.81 2.80 2.79 2.78 2.78 2.77 2.76 2.76

FTSE 1000 All Share 2.80 2.79 2.78 2.77 2.77 2.76 2.75 2.75

FTSE 250 All Share 2.79 2.78 2.77 2.76 2.76 2.75 2.74 2.74

FTSE 300 All Share 2.78 2.77 2.76 2.75 2.75 2.74 2.73 2.73

FTSE 500 All Share 2.77 2.76 2.75 2.74 2.74 2.73 2.72 2.72

FTSE 1000 All Share 2.76 2.75 2.74 2.73 2.73 2.72 2.71 2.71

FTSE 1000 All Share 2.75 2.74 2.73 2.72 2.72 2.71 2.70 2.70

FTSE 250 All Share 2.74 2.73 2.72 2.71 2.71 2.70 2.69 2.69

FTSE 300 All Share 2.73 2.72 2.71 2.70 2.70 2.69 2.68 2.68

FTSE 500 All Share 2.72 2.71 2.70 2.69 2.69 2.68 2.67 2.67

FTSE 1000 All Share 2.71 2.70 2.69 2.68 2.68 2.67 2.66 2.66

FTSE 1000 All Share 2.70 2.69 2.68 2.67 2.67 2.66 2.65 2.65

FTSE 250 All Share 2.69 2.68 2.67 2.66 2.66 2.65 2.64 2.64

FTSE 300 All Share 2.68 2.67 2.66 2.65 2.65 2.64 2.63 2.63

FTSE 500 All Share 2.67 2.66 2.65 2.64 2.64 2.63 2.62 2.62

FTSE 1000 All Share 2.66 2.65 2.64 2.63 2.63 2.62 2.61 2.61

FTSE 1000 All Share 2.65 2.64 2.63 2.62 2.62 2.61 2.60 2.60

FTSE 250 All Share 2.64 2.63 2.62 2.61 2.61 2.60 2.59 2.59

FTSE 300 All Share 2.63 2.62 2.61 2.60 2.60 2.59 2.58 2.58

FTSE 500 All Share 2.62 2.61 2.60 2.59 2.59 2.58 2.57 2.57

FTSE 1

WORLD STOCK MARKETS

Highs & Lows shown

WORLD STOCK MARKETS																															
+/- High Low Yld P/E																															
EUROPE																															
AUSTRIA (Mar 25 / Sch)	Costa	417.95	-6.40	326.22	25.2	1.3	20.6	Varta	525	-50	530	241	3.1	Rebecca	223	-1.20	222.15	1.6	83.2	Asena	171.50	-1.00	174.00	1.0	27.8	Ebora	1,260	-10	1,150	1.0	41.0
Austria	404	+9.50	427.20	31.0	2.4	2.2	Varta	120.80	-15	132.50	265	2.5	Rebecca	220	-1.20	215.50	1.7	87.5	Asena	165	-1.00	170.00	1.0	27.8	Ebora	1,250	-10	1,150	1.0	41.0	
Austria	377.10	-2.00	376.95	181	1.3	5.7	Varta	404	-9.50	427.20	31.0	2.4	Varta	270.70	-1.20	215.50	1.7	87.5	Rebecca	165	-1.00	170.00	1.0	27.8	Ebora	1,250	-10	1,150	1.0	41.0	
Austria	2,500	-7.00	2,525	1,957	1.0	2.7	Varta	503	-10	505	272.0	1.3	Varta	115.50	-1.00	127.50	1.7	87.5	Rebecca	165	-1.00	170.00	1.0	27.8	Ebora	1,250	-10	1,150	1.0	41.0	
Austria	885.85	+1.95	897.80	1.0	1.8	0.8	Varta	1,220	-12	1,242	2,188	2.0	Varta	1,008.50	-1.00	1,145.00	1.7	87.5	Rebecca	141.50	-1.00	152.45	1.7	87.5	Rebecca	1,250	-10	1,150	1.0	41.0	
Austria	885.85	+1.95	897.80	1.0	1.8	0.8	Varta	1,220	-12	1,242	2,188	2.0	Varta	1,008.50	-1.00	1,145.00	1.7	87.5	Rebecca	141.50	-1.00	152.45	1.7	87.5	Rebecca	1,250	-10	1,150	1.0	41.0	
Austria	885.85	+1.95	897.80	1.0	1.8	0.8	Varta	1,220	-12	1,242	2,188	2.0	Varta	1,008.50	-1.00	1,145.00	1.7	87.5	Rebecca	141.50	-1.00	152.45	1.7	87.5	Rebecca	1,250	-10	1,150	1.0	41.0	
Austria	4,400	-1.00	4,392	2,565	2.5	1.8	Varta	404	-9.50	427.20	31.0	2.4	Varta	4,040	-1.00	5,140	2,521	1.7	Varta	1,745	-1.00	1,850	2.0	87.5	Varta	1,250	-10	1,150	1.0	41.0	
Austria	7,702	-1.00	7,629	210	1.3	1.3	Varta	1,220	-12	1,242	2,188	2.0	Varta	1,008.50	-1.00	1,145.00	1.7	87.5	Rebecca	141.50	-1.00	152.45	1.7	87.5	Rebecca	1,250	-10	1,150	1.0	41.0	
Austria	1,115	+1.18	1,160	2,700	0.4	3.7	Varta	1,220	-12	1,242	2,188	2.0	Varta	1,008.50	-1.00	1,145.00	1.7	87.5	Rebecca	141.50	-1.00	152.45	1.7	87.5	Rebecca	1,250	-10	1,150	1.0	41.0	
Austria	1,115	+1.18	1,160	2,700	0.4	3.7	Varta	1,220	-12	1,242	2,188	2.0	Varta	1,008.50	-1.00	1,145.00	1.7	87.5	Rebecca	141.50	-1.00	152.45	1.7	87.5	Rebecca	1,250	-10	1,150	1.0	41.0	
Austria	1,115	+1.18	1,160	2,700	0.4	3.7	Varta	1,220	-12	1,242	2,188	2.0	Varta	1,008.50	-1.00	1,145.00	1.7	87.5	Rebecca	141.50	-1.00	152.45	1.7	87.5	Rebecca	1,250	-10	1,150	1.0	41.0	
Austria	1,115	+1.18	1,160	2,700	0.4	3.7	Varta	1,220	-12	1,242	2,188	2.0	Varta	1,008.50	-1.00	1,145.00	1.7	87.5	Rebecca	141.50	-1.00	152.45	1.7	87.5	Rebecca	1,250	-10	1,150	1.0	41.0	
Austria	1,115	+1.18	1,160	2,700	0.4	3.7	Varta	1,220	-12	1,242	2,188	2.0	Varta	1,008.50	-1.00	1,145.00	1.7	87.5	Rebecca	141.50	-1.00	152.45	1.7	87.5	Rebecca	1,250	-10	1,150	1.0	41.0	
Austria	1,115	+1.18	1,160	2,700	0.4	3.7	Varta	1,220	-12	1,242	2,188	2.0	Varta	1,008.50	-1.00	1,145.00	1.7	87.5	Rebecca	141.50	-1.00	152.45	1.7	87.5	Rebecca	1,250	-10	1,150	1.0	41.0	
Austria	1,115	+1.18	1,160	2,700	0.4	3.7	Varta	1,220	-12	1,242	2,188	2.0	Varta	1,008.50	-1.00	1,145.00	1.7	87.5	Rebecca	141.50	-1.00	152.45	1.7	87.5	Rebecca	1,250	-10	1,150	1.0	41.0	
Austria	1,115	+1.18	1,160	2,700	0.4	3.7	Varta	1,220	-12	1,242	2,188	2.0	Varta	1,008.50	-1.00	1,145.00	1.7	87.5	Rebecca	141.50	-1.00	152.45	1.7	87.5	Rebecca	1,250	-10	1,150	1.0	41.0	
Austria	1,115	+1.18	1,160	2,700	0.4	3.7	Varta	1,220	-12	1,242	2,188	2.0	Varta	1,008.50	-1.00	1,145.00	1.7	87.5	Rebecca	141.50	-1.00	152.45	1.7	87.5	Rebecca	1,250	-10	1,150	1.0	41.0	
Austria	1,115	+1.18	1,160	2,700	0.4	3.7	Varta	1,220	-12	1,242	2,188	2.0	Varta	1,008.50	-1.00	1,145.00	1.7	87.5	Rebecca	141.50	-1.00	152.45	1.7	87.5	Rebecca	1,250	-10	1,150	1.0	41.0	
Austria	1,115	+1.18	1,160	2,700	0.4	3.7	Varta	1,220	-12	1,242	2,188	2.0	Varta	1,008.50	-1.00	1,145.00	1.7	87.5	Rebecca	141.50	-1.00	152.45	1.7	87.5	Rebecca	1,250	-10	1,150	1.0	41.0	
Austria	1,115	+1.18	1,160	2,700	0.4	3.7	Varta	1,220	-12	1,242	2,188	2.0	Varta	1,008.50	-1.00	1,145.00	1.7	87.5	Rebecca	141.50	-1.00	152.45	1.7	87.5	Rebecca	1,250	-10	1,150	1.0	41.0	
Austria	1,115	+1.18	1,160	2,700	0.4	3.7	Varta	1,220	-12	1,242	2,188	2.0	Varta	1,008.50	-1.00	1,145.00	1.7	87.5	Rebecca	141.50	-1.00	152.45	1.7	87.5	Rebecca	1,250	-10	1,150	1.0	41.0	
Austria	1,115	+1.18	1,160	2,700	0.4	3.7	Varta	1,220	-12	1,242	2,188	2.0	Varta	1,008.50	-1.00	1,145.00	1.7	87.5	Rebecca	141.50	-1.00	152.45	1.7	87.5	Rebecca	1,250	-10	1,150	1.0	41.0	
Austria	1,115	+1.18	1,160	2,700	0.4	3.7	Varta	1,220	-12	1,242	2,188	2.0	Varta	1,008.50	-1.00	1,145.00	1.7	87.5	Rebecca	141.50	-1.00	152.45	1.7	87.5	Rebecca	1,250	-10	1,150	1.0	41.0	
Austria	1,115	+1.18	1,160	2,700	0.4	3.7	Varta	1,220	-12	1,242	2,188	2.0	Varta	1,008.50	-1.00	1,145.00	1.7	87.5	Rebecca	141.50	-1.00	152.45	1.7	87.5	Rebecca	1,250	-10	1,150	1.0	41.0	
Austria	1,115	+1.18	1,160	2,700	0.4	3.7	Varta																								

100% 100%

GLOBAL EQUITY MARKETS																					
US INDICES						US DATA															
Day Jones	Mar 24	Mar 23	Mar 22	1997/98	Since compilation	Day Jones	Mar 24	Mar 23	Mar 22	1997/98	Since compilation										
Industrial	8804.44	8818.25	8805.40	8808.43	8801.08	8808.43	912.2	912.2	912.2	912.2	912.2										
House Bonds	105.30	105.20	105.21	105.30	105.45	105.45	54.98	54.98	54.98	54.98	54.98										
Transport	350.08	350.04	350.02	350.08	350.08	350.08	13.23	13.23	13.23	13.23	13.23										
Utilities	287.60	287.40	286.20	287.60	287.60	287.60	16.52	16.52	16.52	16.52	16.52										
DJ Int. Ind. Avg. 3000	8804.44	8818.25	8805.40	8808.43	8801.08	8808.43	912.2	912.2	912.2	912.2	912.2										
Day's high/low	8804.44	8818.25	8805.40	8808.43	8801.08	8808.43	912.2	912.2	912.2	912.2	912.2										
Standard and Poor's	1105.85	1095.55	1092.16	1100.05	1070.01	1100.05	4.40	4.40	4.40	4.40	4.40										
Industrial	1223.16	1217.71	1227.25	1226.16	125.42	1226.16	3.29	3.29	3.29	3.29	3.29										
Financial	135.13	133.51	132.52	135.13	80.75	135.13	7.13	7.13	7.13	7.13	7.13										
Others	574.98	570.54	572.52	570.48	570.48	570.48	4.54	4.54	4.54	4.54	4.54										
Amer. Comp	738.89	735.27	727.79	738.89	541.20	738.89	54.20	54.20	54.20	54.20	54.20										
NASDAQ Comp	1812.44	1782.51	1788.16	1812.44	1201.00	1812.44	54.87	54.87	54.87	54.87	54.87										
Retail 2000	478.28	473.95	474.23	478.28	335.85	478.28	123.36	123.36	123.36	123.36	123.36										
INDEX FUTURES	Volume: 8805,000,000																				
Open	Set price	Change	High	Low	Est. vol.	Open Int.	Volume: 8805,000,000														
Jan 1107.00	1124.40	+7.48	1125.20	1116.50	85,888	1004,888	Volume: 8805,000,000														
Feb 1121.50	1120.50	-10.80	1130.60	1116.50	180,180	1021,180	Volume: 8805,000,000														
Mar 1661.00	1660.00	-10.80	1663.00	1661.00	17,000	187,100	Volume: 8805,000,000														
Open Interest: Jan 8805,000,000							Volume: 8805,000,000														
WORLD MARKETS AT A GLANCE	Volume: 100,000,000																				
Country	Index	Mar 25	Mar 24	Mar 23	1997/98	1997/98	+	Yield	+	PE	Country	Index	Mar 25	Mar 24	Mar 23	1997/98	1997/98	+	Yield	+	PE
Argentina	General	2304.25	2340.00	2348.47	2377.10	221/10/97	1822.70	21/10/97	2.8	20.0	Argentina	General	2304.25	2340.00	2348.47	2377.10	221/10/97	1822.70	21/10/97	2.8	20.0
Australia	ASX Composite	2781.9	2782.0	2778.2	2782.00	2493.98	2828.20	2810/07	3.2	15.4	Australia	ASX Composite	2781.9	2782.0	2778.2	2782.00	2493.98	2828.20	2810/07	3.2	15.4
Belgium	Bel. 1000	1250.2	1250.6	1251.0	1267.10	1242.00	1211.25	27/11/97	541.10	541.10	Belgium	Bel. 1000	1250.2	1250.6	1251.0	1267.10	1242.00	1211.25	27/11/97	541.10	541.10
Canada	TSX Composite	1492.50	1494.61	1497.00	1500.00	1480.00	1500.00	28/12/97	334.40	334.40	Canada	TSX Composite	1492.50	1494.61	1497.00	1500.00	1480.00	1500.00	28/12/97	334.40	334.40
China	Shanghai 50	2012.20	2010.28	2008.17	2011.00	2001.00	2001.00	27/12/97	10.80	10.80	China	Shanghai 50	2012.20	2010.28	2008.17	2011.00	2001.00	2001.00	27/12/97	10.80	10.80
Denmark	OMX Composite	1102.00	1100.50	1102.00	1107.00	1107.00	1107.00	27/12/97	10.80	10.80	Denmark	OMX Composite	1102.00	1100.50	1102.00	1107.00	1107.00	1107.00	27/12/97	10.80	10.80
Finland	Helsinki 20	1100.00	1100.00	1100.00	1100.00	1100.00	1100.00	27/12/97	10.80	10.80	Finland	Helsinki 20	1100.00	1100.00	1100.00	1100.00	1100.00	1100.00	27/12/97	10.80	10.80
France	Paris 40	403.93	403.32	402.31	403.88	403.00	403.88	24/9/98	261.20	261.20	France	Paris 40	403.93	403.32	402.31	403.88	403.00	403.88	24/9/98	261.20	261.20
Germany	DAX 30	1121.50	1121.50	1121.50	1121.50	1121.50	1121.50	27/12/97	10.80	10.80	Germany	DAX 30	1121.50	1121.50	1121.50	1121.50	1121.50	1121.50	27/12/97	10.80	10.80
Iceland	Icelandic 100	201.70	201.70	201.70	201.70	201.70	201.70	27/12/97	10.80	10.80	Iceland	Icelandic 100	201.70	201.70	201.70	201.70	201.70	201.70	27/12/97	10.80	10.80
Italy	Milan Composite	1082.50	1082.50	1082.50	1082.50	1082.50	1082.50	27/12/97	10.80	10.80	Italy	Milan Composite	1082.50	1082.50	1082.50	1082.50	1082.50	1082.50	27/12/97	10.80	10.80
Japan	TOPIX	1084.40	1084.40	1084.40	1084.40	1084.40	1084.40	27/12/97	10.80	10.80	Japan	TOPIX	1084.40	1084.40	1084.40	1084.40	1084.40	1084.40	27/12/97	10.80	10.80
Korea	Seoul Composite	1084.40	1084.40	1084.40	1084.40	1084.40	1084.40	27/12/97	10.80	10.80	Korea	Seoul Composite	1084.40	1084.40	1084.40	1084.40	1084.40	1084.40	27/12/97	10.80	10.80
Malta	Valletta 20	1084.40	1084.40	1084.40	1084.40	1084.40	1084.40	27/12/97	10.80	10.80	Malta	Valletta 20	1084.40	1084.40	1084.40	1084.40	1084.40	1084.40	27/12/97	10.80	10.80
Netherlands	AMX 100	1084.40	1084.40	1084.40	1084.40	1084.40	1084.40	27/12/97	10.80	10.80	Netherlands	AMX 100	1084.40	1084.40	1084.40	1084.40	1084.40	1084.40	27/12/97	10.80	10.80
New Zealand	Auckland 50	1084.40	1084.40	1084.40	1084.40	1084.40	1084.40	27/12/97	10.80	10.80	New Zealand	Auckland 50	1084.40	1084.40	1084.40	1084.40	1084.40	1084.40	27/12/97	10.80	10.80
Norway	Oslo Composite	1084.40	1084.40	1084.40	1084.40	1084.40	1084.40	27/12/97	10.80	10.80	Norway	Oslo Composite	1084.40	1084.40	1084.40	1084.40	1084.40	1084.40	27/12/97	10.80	10.80
Portugal	Lisbon																				

STOCK MARKETS

Low inflation drives bourses to new peaks

WORLD OVERVIEW

New peaks are being reached in financial markets so often these days that the authors of the *Guinness Book of Records* must be developing writer's cramp, writes Philip Coggan.

The announcement by the European Union that the expected 11 countries had qualified for a single currency hardly came as a surprise to the market, but did nothing to disturb the bulls.

A batch of European markets reached all-time highs including Amsterdam, Brussels, Copenhagen, Dublin, Frankfurt, Milan, Madrid, Paris and Zurich.

Low inflation has been one of the factors helping equity markets to reach new highs and it has also pushed up bond prices; the yield on the 10-year German bond dipped to a historic low (since records began in the 1960s) yesterday.

With interest rates and

bond yields low, equity valuations have also been stretched. The UK market offers its lowest dividend yield since the first world war. And the US market is now more highly priced, relative to profits, than it has ever been.

The historic price-earnings ratio of the S&P 500 has reached 27.8, higher than at market peaks such as 1987 or 1972 and higher than in 1992 when the recession temporarily depressed earnings.

Even counting on earnings growth does not resolve the valuation issue. IBES, the financial information company, also says that the prospective price-earnings ratio on the S&P 500 index is the highest since the second world war.

There have been adjustments made to the previously rather rosy consensus view of earnings growth in the US. According to IBES, bottom-up forecasts (those made by individual company

analysts) for 1998 earnings were reduced by 1.6 per cent in February, the largest monthly decline for nearly five years.

Even so, at growth of 11.5 per cent, the bottom-up prediction is well ahead of the 7.7 per cent forecast by the top-down strategists. That suggests many earnings disappointments from the US corporate sector in coming months.

Still, if US investors get tired of local companies,

they may turn their attention to Chinese stocks. The chairman of the New York Stock Exchange said yesterday he expected a rapid rise in the number of Chinese companies listing on the US market; his remarks, made on a visit to the Shanghai Stock Exchange, followed an announcement from Yan'an Coal Mining that it was opting for a dual listing in New York and Hong Kong.

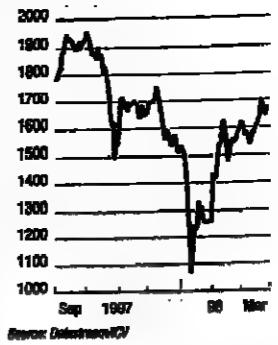
London market, Page 30

EMERGING MARKET FOCUS

Good buying on the bad days

Singapore

Straits Times index



Investors in Singapore have become tired in recent weeks of waiting for a clear indication of how Indonesia will deal with its economic predicament. Instead, they have once again begun trading on domestic factors, such as interest rate cuts and what they might mean for the property sector.

It is not that investors no longer fear a spillover from the economic crisis and subsequent social unrest in their southern neighbour.

Rather, as Daragh Maher, economist at ING Baring Securities in Singapore, puts it, investors are increasingly differentiating between the

south-east Asian nations.

For the growing number of

investors who believe two of

the three countries most

affected by the Asian crisis – Thailand and South Korea – are stabilising, it is time to

move back into the region

while share prices are still

cheap and Singapore is

seen as the safest place to

put money.

It is currency and stock

market that have held up

more than most because Singapore's economy is well managed and structurally sound.

Corporates and banks, mean-

while, have made provisions

for troubles to come, and

authorities have continued

to make the city-state attractive

to by liberalising the

economy.

There is no doubt Singa-

ore's growth will slow with

the regional downturn as

many of its industries are

interlinked with those in

neighbouring countries.

Indeed, the authorities are

projecting 2.5 per cent to 4.5

per cent growth this year,

down sharply from 7.8 per

cent last year.

But analysts believe smart

economic policies and sound

corporate governance will

see most Singaporean com-

panies through the next few

difficult years.

"Corporates generally are

stuffed full of cash, the gov-

ernment is stuffed full of

Sheila McNulty

Tech sector leads US shares higher

AMERICAS

Strong demand for technology shares, sparked by bullish comments from software leader Microsoft, set firm start to US equities, writes John Labate in New York.

By early afternoon the Dow Jones Industrial Average was hitting record highs, gaining 33.13 to 8,937.57. The broader Standard & Poor's 500 index rose 5.13 to 1,110.75. The sharpest gains came from tech shares which sent the Nasdaq composite index up 21.23 or 1.2 per cent to 1,833.77.

Microsoft said late on Tuesday that it expected its forthcoming quarterly earnings to top analysts' estimates. This helped soften disappointing comments on the same day by 3Com, a leader in networking computer components, of lower-than-expected quarterly sales and earnings.

Microsoft's shares climbed 94c, or more than 5 per cent, to \$86.4, while 3Com lost \$1 to \$86.4. Xerox surged 94c or more than 4 per cent to \$101.4, after rumours spread about possible job cuts. Also helping shares was a raised price target by Salomon Smith Barney.

Banking shares were mostly higher despite a pull back to the US Treasury market. The Philadelphia Stock Exchange's banking index gained 2.65 to 86.22. The price of the 30-year long bond, meanwhile, slipped \$1 to 102.18, sending the yield up to 5.22 per cent.

TORONTO continued to test record highs at midday, spurred by merger mania in the telecommunications sector. The TSE-300 composite index was 36.27 higher in midday trade at 7,595.50.

Telus and BCE led the rise in telecoms as the sector moved up on confirmation that AT&T Canada Long Distance Services was in merger talks with Telus.

Telus rose C\$2.80 to C\$43 and the Montreal-based BCE was C\$1.98 higher at C\$66.20. BCE owns Bell Canada, the country's largest telephone company.

The rest of the sector was sent higher by the market's expectation that the Telus talks could lead to a restructuring of the long-standing Stentor alliance of Canadian telephone companies.

Cisco Systems gained \$1.4 to \$96.7 and other computer sectors also rose sharply, with Dell Computer up 85c or more than 4 per cent to \$65.5.

Among Dow components, IBM and Hewlett-Packard

EUROPE

Shares in PARIS broke through the 3,800 barrier to close at the session's high. The CAC 40 index ended 80.17 higher at a record 3,818.71, up nearly 4 per cent in two days.

Peugeot stormed to the top of the performance charts, climbing FF1.079 or 10 per cent to FF7.557 after processing operating profits of at least FF75bn this year, against FF630,000 in 1997. This helped punch the sector smartly ahead with Michelin up FF18.60 at FF377 and Renault FF1.1 at FF256. The latter also gained from talk that Rhône Poulenc's plans for a capital

restructure could be mirrored by the motor giant.

Rhône Poulenc plans to swap participating shares into basic equity and the shares jumped FF1.17 to FF23.40. Schneider rose FF24.90 to FF362.40 after a number of brokers were said to have lifted price targets above FF350.

Buagyss gained FF3.05 on press reports that a 20 per cent stake in the company's telecoms offshore may soon be up for sale.

FRANKFURT looked to Wall Street for confirmation that a continuation of its record setting run was not misplaced and the Xtra Dax index closed above the 5,100 level for the first time. The index put on 49.76 to finish at 5,114.18. Banking shares were pulled back from their best levels by profit-taking. Nonetheless, Deutsche Bank put on DM4.55 to DM139.90 and Commerzbank added DM1.11 to 68.75.

Dresdner Bank climbed DM3.33 to DM111 ahead of its news conference today at which it is expected to report strong growth in net interest and commission charges.

AMSTERDAM continued to push higher amid heavy options trading where the bulls were firmly in command with call positions outstripping puts by more than three to one.

Royal Dutch, where investors' faith in the rally for oil prices looked to facing a severe test, and Aegon were weak features, but there were solid gains elsewhere

as SAP preference shares finished DM4 lower at DM781 after the group announced that the introduction of an employee share appreciation scheme would have an

impact on earnings per share in 1998.

VW gave up DM36 to DM1,396 after the group's annual news conference.

ZURICH remained afloat as a strong financial sector helped to offset losses in market-heavy Roche.

The SMI index turned back from a day's high of 7,491.7 but was still able to extend its run of record setting closes, up 64.7 at 7,472.1.

Roche, which on Tuesday reported an accounting loss of SF1.2bn, moved ahead in pre-bourse trade but came under pressure during the regular session to close SF1460 lower at SF14,000.

Analysts said that the results met expectations although restructuring charges were higher than expected.

J. P. Morgan, which repeated its buy recommendation for Roche, raised its 1998 earnings forecasts and set an end-1998 share price target of SF17,250, up from SF17,500.

Novartis, rose SF4.46 to SF27,700, profiting from shifting out of Roche.

Nestlé, the food and beverages company, rose SF15.75 to SF72,555 ahead of the release of 1997 results today.

Zuercher Kantonalbank forecast 1997 group profit of SF4.1bn.

Financials UBS and its merger partner, SBC, rose on the back of a Goldman Sachs' recommendation.

UBS gained SF60 to SF2,435 and SBC was SF12 higher at SF52.53.

Knorr surged SF400 to SF7,500 in the wake of Tuesday's news of a 33 per cent rise in 1997 net income.

ANSTADT continued to push higher amid heavy options trading where the bulls were firmly in command with call positions outstripping puts by more than three to one.

Royal Dutch, where investors' faith in the rally for oil prices looked to facing a severe test, and Aegon were weak features, but there were solid gains elsewhere

as SAP preference shares finished DM4 lower at DM781 after the group announced that the introduction of an employee share appreciation scheme would have an

impact on earnings per share in 1998.

VW gave up DM36 to DM1,396 after the group's annual news conference.

ZURICH remained afloat as a strong financial sector helped to offset losses in market-heavy Roche.

The SMI index turned back from a day's high of 7,491.7 but was still able to extend its run of record setting closes, up 64.7 at 7,472.1.

Roche, which on Tuesday reported an accounting loss of SF1.2bn, moved ahead in pre-bourse trade but came under pressure during the regular session to close SF1460 lower at SF14,000.

Analysts said that the results met expectations although restructuring charges were higher than expected.

J. P. Morgan, which repeated its buy recommendation for Roche, raised its 1998 earnings forecasts and set an end-1998 share price target of SF17,250, up from SF17,500.

Novartis, rose SF4.46 to SF27,700, profiting from shifting out of Roche.

Nestlé, the food and beverages company, rose SF15.75 to SF72,555 ahead of the release of 1997 results today.

Zuercher Kantonalbank forecast 1997 group profit of SF4.1bn.

Financials UBS and its merger partner, SBC, rose on the back of a Goldman Sachs' recommendation.

UBS gained SF60 to SF2,435 and SBC was SF12 higher at SF52.53.

Knorr surged SF400 to SF7,500 in the wake of Tuesday's news of a 33 per cent rise in 1997 net income.

ANSTADT continued to push higher amid heavy options trading where the bulls were firmly in command with call positions outstripping puts by more than three to one.

Royal Dutch, where investors' faith in the rally for oil prices looked to facing a severe test, and Aegon were weak features, but there were solid gains elsewhere

as SAP preference shares finished DM4 lower at DM781 after the group announced that the introduction of an employee share appreciation scheme would have an

impact on earnings per share in 1998.

VW gave up DM36 to DM1,396 after the group's annual news conference.

ZURICH remained afloat as a strong financial sector helped to offset losses in market-heavy Roche.

The SMI index turned back from a day's high of 7,491.7 but was still able to extend its run of record setting closes, up 64.7 at 7,472.1.

Roche, which on Tuesday reported an accounting loss of SF1.2bn, moved ahead in pre-bourse trade but came under pressure during the regular session to close SF1460 lower at SF14,000.

Analysts said that the results met expectations although restructuring charges were higher than expected.

J. P. Morgan, which repeated its buy recommendation for Roche, raised its 1998 earnings forecasts and set an end-1998 share price target of SF17,250, up from SF17,500.

Novartis

MIDDLE EAST & N AFRICA PRIVATISATION

There has been a gulf between claims of commitment and actual achievement. Roula Khalaf reports

The pressures for change mount

Privatisation is the talk of the Middle East and North Africa. From Riyadh to Casablanca governments are claiming commitment to privatisation and to reducing state control over the economy, and vowing that the next decade will see a fledgling private sector thrive.

Although the record so far is patchy, with many countries paying only lip service to privatisation while others which had warmly embraced it are now taking a pause, over the coming years governments in the region will have little choice but to give the private sector a larger role in the state-dominated economies.

The oil-rich Gulf countries are again facing the challenge of lower oil prices and are being pressured to relieve the burden on budgetary spending by reducing the state's extensive welfare role. The non-oil countries of the "emerging Middle East" are being called on to compete in a global economy and meet the productivity requirements of association agreements with the European Union, which can only be achieved by gradually turning over production and services to the private sector.

As Mohamed el-Erian, European head of emerging markets at Salomon Smith Barney, argues, events on the world economic stage provide the region with a unique opportunity.

"Against the background of turmoil in Asian markets many economies in the region look good, with strong macro-economic

fundamentals, limited trade and financial linkage with Asia, sound banking systems and high foreign exchange reserves," he says. "You couldn't wish for better conditions to accelerate privatisation, allow for the transfer of technology and bring in foreign capital."

The region's requirements and the challenges facing countries are monumental. Development of infrastructure alone has been estimated to cost up to \$350bn over the next decade, and most governments now admit that the private sector will have to shoulder a large part of the cost.

If virtually every government has privatisation on the agenda it is in part because the region desperately needs to generate growth sufficient to create jobs for a rapidly growing population, more than half of which is under 25. Unemployment rates are a huge concern, reaching as high as 20 per cent in Jordan and 28 per cent in Algeria, often hitting young graduates the hardest and fuelling anxieties of social unrest.

One main reason why the region has lagged behind others - per capita income deteriorated in the period 1980 to 1990 - is that the state continues to dominate the economy. With state resources dwindling, both public and private investment has been stifled. Private investment for the region as a whole has stagnated at about 10 per cent of GDP since 1980, while public investment has declined from 15 per cent of GDP to under 10 per cent.

"The government's dominant role in the economy has tended to undermine productive private sector activities rather than support them," says a 1997 IMF report.

There have, however, been improvements during the last two years.

In spite of political uncertainty and the breakdown in the Middle East peace process, real per capita GDP growth increased by 2.4 per cent in 1996 and 1.4 per cent last year. Capital flows to the region - which have averaged 0.5 to 0.7 per cent of GDP - have increased most notably in Egypt, Morocco and Jordan. Private investment has also overtaken public investment in the last few years, and companies from the region have been able to tap international markets for

prominently.

Not surprisingly, most successful efforts at privatisation in the region have been in the non-oil economies. Egypt's privatisation, which took off in 1996, has captured the attention of international investors. As in Morocco, which launched its privatisation programme three years earlier, the benefits of privatisation quickly became apparent, with trading on the domestic stock exchange soaring and the emergence of a domestic investors' market.

In both cases privatisation also sent the right signals to foreign investors and was the driving force behind an increase in foreign investment. Privatised companies, such as Egypt's Suez Cement and Morocco's Banque Marocaine pour le Commerce Exterieur, have successfully

tapped international markets for finance.

Meanwhile, government economists are warning that privatising a largely state-dominated banking industry has fallen behind and should become a priority to give a nascent private sector the chance to develop.

In Gulf economies, dominated by oil, governments

are viewed as the providers of employment - in Kuwait more than 80 per cent of the workforce is employed in the public sector - and the distributors of the country's wealth through huge subsidies. This is why privatising requires a radical change in mindset and in the nature of governance.

In Israel, meanwhile, the Likud government kept its promise to make privatisation the main pillar of economic policy but privatisation is believed to have stifled competition and led to greater concentration of economic power.

Throughout the region governments are giving unequivocal signals of a willingness to begin turning over development of infrastructure and telecommunications to the private sector. The first privatisation of state-run telecommunications monopolies is expected to come from Jordan this year, with Morocco, Kuwait and Oman in progress. Private mobile telephone licences are also being awarded in several countries.

"Countries need to face up to the subsidies issue," says

Neamat Shafik, the World Bank director for private sector development and finance for the Middle East and North Africa, argues that for these economies the

privatisation challenge is not targeted at public enterprises as much as infrastructure since many state-owned companies are run by private management and are generally not a drain on the budget.

Indeed, throughout the

region, governments are giving

unequivocal signals of a

willingness to begin turning

over development of infra-

structure and telecommunications to the private sector.

The first privatisation of state-run telecommunications monopolies is expected to come from Jordan this year, with Morocco, Kuwait and Oman in progress. Private mobile telephone

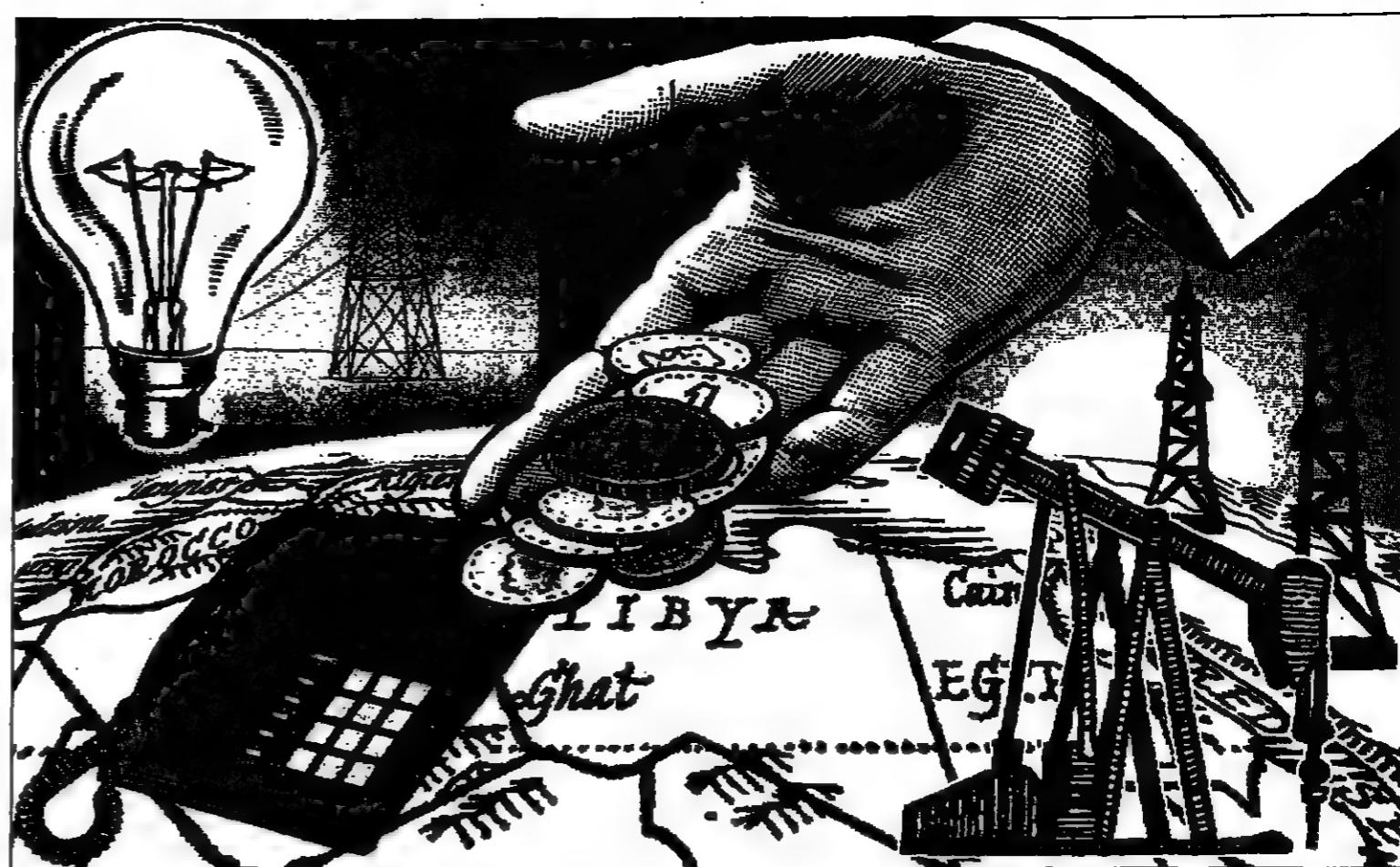
licences are also being awarded in several countries.

New privately-financed

power projects have been

started or are about to be

launched in Oman, Egypt.



This notice appears as a matter of record only. It does not comprise any offer or invitation to subscribe for or purchase securities and is not intended to lead to any person entering into any agreement for the purchase or sale of securities.

December, 1997

THE EGYPTIAN INTERNATIONAL FUND (EGYPT)

L.E. 1,000,000,000
(U.S. \$ 294,000,000)

First Issue L.E. 500,000,000

Privately Placed With

National Organization
For Social Security

Social Security Fund For The Employees
Of The Public And Private Enterprises

Misr Insurance Company

Bank of Alexandria
Banque Misr

Banque Du Caire
National Bank of Egypt

Investment Manager

Concord International Investments

New York

Cairo

This notice appears as a matter of record only. It does not comprise any offer or invitation to subscribe for or purchase securities and is not intended to lead to any person entering into any agreement for the purchase or sale of securities.

February, 1998

MISR INTERNATIONAL BANK MUTUAL FUND (EGYPT)

First Issue L.E. 280,000,000
(U.S. \$ 82,000,000)

Investment Manager

Concord International Investments

New York

Cairo

2 MIDDLE EAST & NORTH AFRICA PRIVATISATION

INFRSTRUCTURE • By Mark Huband

Investment held back by neglect

The private sector is starting to take over water, energy and road projects in the region

Neglect and under-investment have taken their toll on infrastructure across the Middle East. Bad roads, poor telephone systems, and inadequate or non-existent sewerage and water supplies have disrupted living standards and deterred investment in the region.

Unable to provide the funds required to reverse the trend, governments have been forced to seek private sector finance and control of main infrastructure projects.

In 1997 the World Bank estimated infrastructure investment requirements at \$300bn to \$350bn over the next 10 years. Given fiscal austerity in much of the region, it believes as much as \$50bn of projects will need to be financed by the private sector.

The most serious inefficiencies in the Middle East are found in the water, energy and transportation sectors. According to the World Bank, 45m people in the region do not have access to safe drinking water and only 20 per cent of urban wastewater is treated.

Nemat Shafik, the World Bank director for private sector development and finance for the Middle East and North Africa, says most projects are likely to be in telecommunications and power. "It is very easy to get the private sector to finance these projects but difficult for them to do rural water supply because they can't charge consumers prices they need to make a profit."

Heavy state subsidies have deterred private investment in water management

schemes, leaving governments to finance improvements to services, often with foreign aid grants. Even so, a \$141m private sector disqualification project is under way in southern Jordan on a build-operate-transfer (BOT) basis. Morocco has also signed a management contract with Lyonnaise des Eaux de France to distribute water in Casablanca.

Energy projects offer more security than water schemes for private sector investors and operators. Nationwide power grids allow negotiations over supply and price to be simplified.

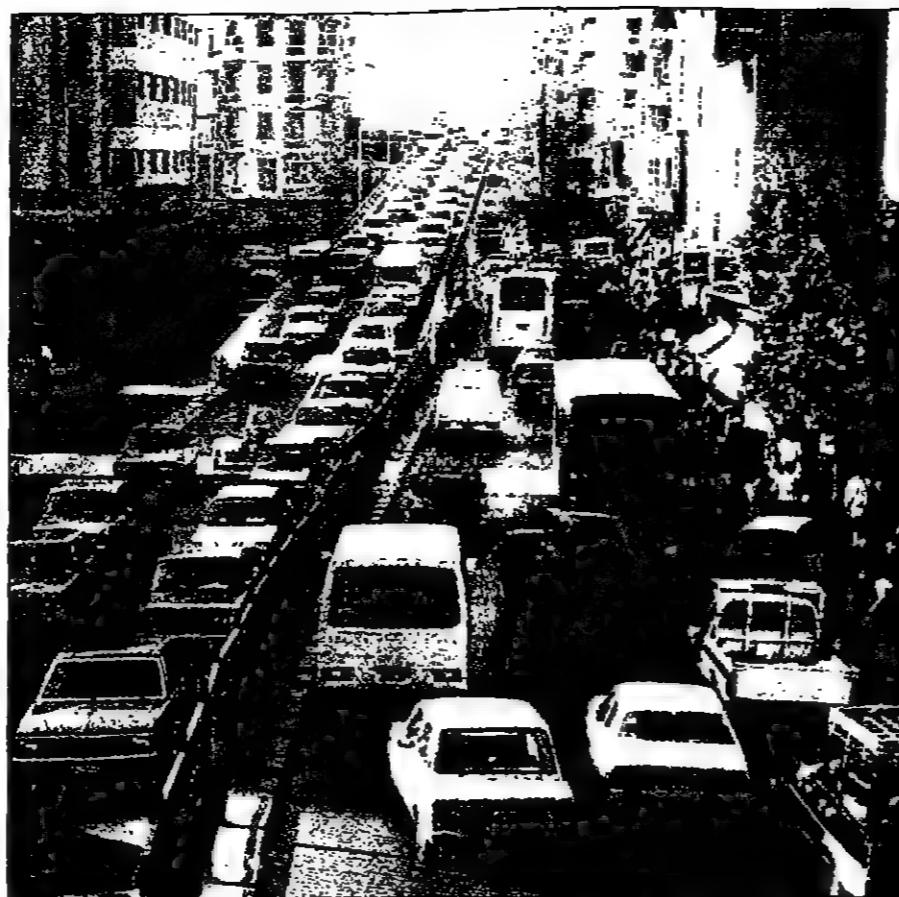
By 2002 private sector operators are expected to be generating 6,000MW across the region. Region-wide demand for energy is expected to grow annually by about 6 per cent by 2006, a factor likely to open opportunities for private sector construction and operating companies.

Among the first private sector deals in the region was the 1994 BOT thermal power facility at Al Mazra in Oman, which has already started operations.

The \$200m project was partly financed by the International Finance Corporation and will be followed by a second BOT 200MW plant at Salalah.

In September 1997 Tunisia awarded a foreign consortium led by Community Energy Alternatives of the US a \$300m contract to build and operate a 300MW combined-cycle gas turbine plant at Rades, south of Tunis. The project was the first of its kind in the country, and marked a departure from the government's cautious attitude towards privatisation.

Morocco is now looking for investors to develop other private power schemes, following the signing last year



Transport is one of the most serious inefficiencies in the Middle East

of a \$1.5bn deal for the expansion and operation of power plants at Jorf Lasfar, 230km south of Rabat. The new Tahaddart Energy Company (Tec) will build a 470MW gas-fired power station near the northern city of Tangier. However, Tec will be operated as a joint venture in which the state electricity company will hold a 51 per cent stake.

Sidi Krier, Egypt's first venture into private sector BOT power generation, has been applauded by both the companies who put in tenders, as well as by the architects of the government's privatisation programme. The \$300m project to generate 650MW is one of two power generation plants under construction to help raise energy output from the current 14,800MW to 43,000MW by 2018.

Like Egypt, Jordan is only just embarking on BOT power projects, with results of the first bid for private sector 300MW power station expected this month. While the countries of the region are attracting investors in large projects, the hope that such modernisation will bring foreign direct

investment in industrial sectors is the main goal. Beyond improving utilities, investment in transport infrastructure is viewed as essential if foreign direct investment is to rise.

Private sector transport projects are planned across the region, with Egypt considering a 900-km BOT

motorway linking Alexandria with Aswan. In Jordan a build-operate-light rail service between Amman and Zarqa is to be established. An industrial port in Aqaba is also being built with a 50 per cent private sector participation.

Morocco has invited bids for a \$300m port in Tangier, as well as offering a management contract for the existing port.

Egypt's port and airport facilities are likely to be expanded in the coming years. A free port south of Suez is planned as part of a privately-operated industrial free zone to be established on the Red Sea. Along the same coast, the contract for a new BOT airport at Marsa Alam has been awarded, as has one for an airport at El Alamein.

Private sector involvement in road networks and motorways is complicated by the difficulty in predicting revenue.

But in Lebanon, where an ambitious \$60bn reconstruction project is under way, the government has

realised that it will have to shift more projects to the private sector than originally envisioned.

Consequently, the Beirut-Damascus highway and the beltway around Beirut will be financed and operated by the private sector.

Such projects, even in cash-rich emirates, reflect a realisation that the private sector's role cannot be avoided. To reach a planned 6 per cent of economic growth Morocco, for example, must invest \$2.5bn a year in infrastructure - \$800m more than currently.

Spreading the cost and exploiting private sector capital and expertise is now an accepted way of pursuing growth targets.

While the countries of the region are attracting investors in large projects, the hope that such modernisation will bring foreign direct

investment in industrial sectors is the main goal. Beyond improving utilities, investment in transport infrastructure is viewed as essential if foreign direct

investment is to rise.

Private sector transport projects are planned across the region, with Egypt considering a 900-km BOT

motorway linking Alexandria with Aswan. In Jordan a build-operate-light rail service between Amman and Zarqa is to be established. An industrial port in Aqaba is also being built with a 50 per cent private sector participation.

Morocco has invited bids for a \$300m port in Tangier, as well as offering a management contract for the existing port.

Egypt's port and airport facilities are likely to be expanded in the coming years. A free port south of Suez is planned as part of a privately-operated industrial free zone to be established on the Red Sea. Along the same coast, the contract for a new BOT airport at Marsa Alam has been awarded, as has one for an airport at El Alamein.

Private sector involvement in road networks and motorways is complicated by the difficulty in predicting revenue.

But in Lebanon, where an ambitious \$60bn reconstruction project is under way, the government has

realised that it will have to shift more projects to the private sector than originally envisioned.

Consequently, the Beirut-Damascus highway and the beltway around Beirut will be financed and operated by the private sector.

Such projects, even in cash-rich emirates, reflect a realisation that the private sector's role cannot be avoided. To reach a planned 6 per cent of economic growth Morocco, for example, must invest \$2.5bn a year in infrastructure - \$800m more than currently.

Spreading the cost and exploiting private sector capital and expertise is now an accepted way of pursuing growth targets.

While the countries of the region are attracting investors in large projects, the hope that such modernisation will bring foreign direct

investment in industrial sectors is the main goal. Beyond improving utilities, investment in transport infrastructure is viewed as essential if foreign direct

investment is to rise.

Private sector transport projects are planned across the region, with Egypt considering a 900-km BOT

motorway linking Alexandria with Aswan. In Jordan a build-operate-light rail service between Amman and Zarqa is to be established. An industrial port in Aqaba is also being built with a 50 per cent private sector participation.

Morocco has invited bids for a \$300m port in Tangier, as well as offering a management contract for the existing port.

Egypt's port and airport facilities are likely to be expanded in the coming years. A free port south of Suez is planned as part of a privately-operated industrial free zone to be established on the Red Sea. Along the same coast, the contract for a new BOT airport at Marsa Alam has been awarded, as has one for an airport at El Alamein.

Private sector involvement in road networks and motorways is complicated by the difficulty in predicting revenue.

But in Lebanon, where an ambitious \$60bn reconstruction project is under way, the government has

realised that it will have to shift more projects to the private sector than originally envisioned.

Consequently, the Beirut-Damascus highway and the beltway around Beirut will be financed and operated by the private sector.

Such projects, even in cash-rich emirates, reflect a realisation that the private sector's role cannot be avoided. To reach a planned 6 per cent of economic growth Morocco, for example, must invest \$2.5bn a year in infrastructure - \$800m more than currently.

Spreading the cost and exploiting private sector capital and expertise is now an accepted way of pursuing growth targets.

While the countries of the region are attracting investors in large projects, the hope that such modernisation will bring foreign direct

investment in industrial sectors is the main goal. Beyond improving utilities, investment in transport infrastructure is viewed as essential if foreign direct

investment is to rise.

Private sector transport projects are planned across the region, with Egypt considering a 900-km BOT

motorway linking Alexandria with Aswan. In Jordan a build-operate-light rail service between Amman and Zarqa is to be established. An industrial port in Aqaba is also being built with a 50 per cent private sector participation.

Morocco has invited bids for a \$300m port in Tangier, as well as offering a management contract for the existing port.

Egypt's port and airport facilities are likely to be expanded in the coming years. A free port south of Suez is planned as part of a privately-operated industrial free zone to be established on the Red Sea. Along the same coast, the contract for a new BOT airport at Marsa Alam has been awarded, as has one for an airport at El Alamein.

Private sector involvement in road networks and motorways is complicated by the difficulty in predicting revenue.

But in Lebanon, where an ambitious \$60bn reconstruction project is under way, the government has

realised that it will have to shift more projects to the private sector than originally envisioned.

Consequently, the Beirut-Damascus highway and the beltway around Beirut will be financed and operated by the private sector.

Such projects, even in cash-rich emirates, reflect a realisation that the private sector's role cannot be avoided. To reach a planned 6 per cent of economic growth Morocco, for example, must invest \$2.5bn a year in infrastructure - \$800m more than currently.

Spreading the cost and exploiting private sector capital and expertise is now an accepted way of pursuing growth targets.

While the countries of the region are attracting investors in large projects, the hope that such modernisation will bring foreign direct

investment in industrial sectors is the main goal. Beyond improving utilities, investment in transport infrastructure is viewed as essential if foreign direct

investment is to rise.

Private sector transport projects are planned across the region, with Egypt considering a 900-km BOT

motorway linking Alexandria with Aswan. In Jordan a build-operate-light rail service between Amman and Zarqa is to be established. An industrial port in Aqaba is also being built with a 50 per cent private sector participation.

Morocco has invited bids for a \$300m port in Tangier, as well as offering a management contract for the existing port.

Egypt's port and airport facilities are likely to be expanded in the coming years. A free port south of Suez is planned as part of a privately-operated industrial free zone to be established on the Red Sea. Along the same coast, the contract for a new BOT airport at Marsa Alam has been awarded, as has one for an airport at El Alamein.

Private sector involvement in road networks and motorways is complicated by the difficulty in predicting revenue.

But in Lebanon, where an ambitious \$60bn reconstruction project is under way, the government has

realised that it will have to shift more projects to the private sector than originally envisioned.

Consequently, the Beirut-Damascus highway and the beltway around Beirut will be financed and operated by the private sector.

Such projects, even in cash-rich emirates, reflect a realisation that the private sector's role cannot be avoided. To reach a planned 6 per cent of economic growth Morocco, for example, must invest \$2.5bn a year in infrastructure - \$800m more than currently.

Spreading the cost and exploiting private sector capital and expertise is now an accepted way of pursuing growth targets.

While the countries of the region are attracting investors in large projects, the hope that such modernisation will bring foreign direct

investment in industrial sectors is the main goal. Beyond improving utilities, investment in transport infrastructure is viewed as essential if foreign direct

investment is to rise.

Private sector transport projects are planned across the region, with Egypt considering a 900-km BOT

motorway linking Alexandria with Aswan. In Jordan a build-operate-light rail service between Amman and Zarqa is to be established. An industrial port in Aqaba is also being built with a 50 per cent private sector participation.

Morocco has invited bids for a \$300m port in Tangier, as well as offering a management contract for the existing port.

Egypt's port and airport facilities are likely to be expanded in the coming years. A free port south of Suez is planned as part of a privately-operated industrial free zone to be established on the Red Sea. Along the same coast, the contract for a new BOT airport at Marsa Alam has been awarded, as has one for an airport at El Alamein.

Private sector involvement in road networks and motorways is complicated by the difficulty in predicting revenue.

But in Lebanon, where an ambitious \$60bn reconstruction project is under way, the government has

realised that it will have to shift more projects to the private sector than originally envisioned.

Consequently, the Beirut-Damascus highway and the beltway around Beirut will be financed and operated by the private sector.

Such projects, even in cash-rich emirates, reflect a realisation that the private sector's role cannot be avoided. To reach a planned 6 per cent of economic growth Morocco, for example, must invest \$2.5bn a year in infrastructure - \$800m more than currently.

Spreading the cost and exploiting private sector capital and expertise is now an accepted way of pursuing growth targets.

While the countries of the region are attracting investors in large projects, the hope that such modernisation will bring foreign direct

investment in industrial sectors is the main goal. Beyond improving utilities, investment in transport infrastructure is viewed as essential if foreign direct

investment is to rise.

Private sector transport projects are planned across the region, with Egypt considering a 900-km BOT

motorway linking Alexandria with Aswan. In Jordan a build-operate-light rail service between Amman and Zarqa is to be established. An industrial port in Aqaba is also being built with a 50 per cent private sector participation.

Morocco has invited bids for a \$300m port in Tangier, as well as offering a management contract for the existing port.

Egypt's port and airport facilities are likely to be expanded in the coming years. A free port south of Suez is planned as part of a privately-operated industrial free zone to be established on the Red Sea. Along the same coast, the contract for a new BOT airport at Marsa Alam has been awarded, as has one for an airport at El Alamein.

Private sector involvement in road networks and motorways is complicated by the difficulty in predicting revenue.

But in Lebanon, where an ambitious \$60bn reconstruction project is under way, the government has

realised that it will have to shift more projects to the private sector than originally envisioned.

Consequently, the Beirut-Damascus highway and the beltway around Beirut will be financed and operated by the private sector.

Such projects, even in cash-rich emirates, reflect a realisation that the private sector's role cannot be avoided. To reach a planned 6 per cent of economic growth Morocco, for example, must invest \$2.5bn a year in infrastructure - \$800m more than currently.

Spreading the cost and exploiting private sector capital and expertise is now an accepted way of pursuing growth targets.

While the countries of the region are attracting investors in large projects, the hope that such modernisation will bring foreign direct

investment in industrial sectors is the main goal. Beyond improving utilities, investment in transport infrastructure is viewed as essential if foreign direct

investment is to rise.

Private sector transport projects are planned across the region, with Egypt considering a 900-km BOT

motorway linking Alexandria with Aswan. In Jordan a build-operate-light rail service between Amman and Zarqa is to be established. An industrial port in Aqaba is also being built with a 50 per cent private sector participation.

Morocco has invited bids for a \$300m port in Tangier, as well as offering a management contract for the existing port.

Egypt's port and airport facilities are likely to be expanded in the coming years. A free port south of Suez is planned as part of a privately-operated industrial free zone to be established on the Red Sea. Along

EGYPT • by Mark Huband

Choosy investors play wait and see

State still holds strong sway in most of the part-privatised companies

Just a year after Egyptian stocks became some of the hottest property in the Middle East the fanfare announcing Egypt's emergence as an investor's dream has been muted by a game of wait and see.

The privatisation programme which led the investment drive of 1997 saw stock market capitalisation soar by \$6bn in one year to reach the current \$20.2bn. Fundamentally the process was less a move towards rescinding state control of the economy than allowing the state to profit from investor interest while boosting the role of the capital market as a source of private sector funds.

The government has earned \$27.8bn from privatisation. This income, largely from minority share issues, has allowed \$261.6m to be spent on restructuring the public sector in advance of further issues. However, the impact of the issues has fallen far short of marking the relinquishment by government of a significant role in the economy, which has become a deterrent to private sector investors who are ready to buy large or majority stakes.

The government responds to this criticism by highlighting the need to retain investor interest over time by maintaining its ability to release further tranches of shares. Its strategy of stealth was partially vindicated by the failure of the alternatives. To back it up it points to the banking collapse of south-east Asia. Egypt also drew direct lessons from Mexico's banking collapse in 1995, concluding that investment levels should not create unserviceable leverage.

"What I blame the government for is that it keeps a big stick over the successful companies that have been part-privatised," says Saad Sallam, chairman of the Olympic Group. The group's holding company, OGFI, recently bought a majority stake in Ideal, Egypt's leading public sector manufacturer of domestic appliances.

The government imposes restrictions on privatised companies for political reasons," he said. OGFI was originally told it could not dispose of the land occupied by Ideal's four production sites. The group intends to bring all production to one site outside Cairo and must now negotiate the fate of the land despite being the owner. "If the government

wants me to have the courage to get into a company and turn it around, they should give me everything, give me a free hand. The impact of restrictions is that it slows privatisation," Mr Sallam said.

The effect of the brakes being kept on the pace of privatisation is clear. By the end of last month the state had sold shares in 84 companies. However, it remained the largest shareholder in 29 of the 34 companies in which more than half the shares had been sold. Of eight companies, in which less than half the shares had been sold, it retained an average 70 per cent of shares.

The government has announced plans to privatisate 34 companies in 1998 at a rate of four to six a month. However, the excitement of foreign and domestic investors on the stock exchange has come to be dominated by a combination of both caution and growing discernment.

While 1997 saw stocks being snapped up, 1998 has experienced a slowdown in trade while investors await the most attractive sales at the expense of other privatisations.

The best recent example of this was the February issue of 30 per cent of shares in Egypt's Mobile Phone Company cellular phone system, which was subscribed 50 times over and saw an eventual allocation of 1.7 per cent, in some cases amounting to a mere 25 shares. A second example was EgyptAlum, a fully-subscribed issue in which a mere 10 per cent of the company was sold to the public.

Both these issues initially revived stock market trade, which then slowed while the next attractive issue was awaited.

A growing tendency among investors to wait for the most promising issues has been a key factor in determining the pace of the privatisation programme, while turning trading trends into a series of crests and troughs.

The government does not want to deter would-be investors by disappointing those who fail to secure a meaningful proportion of the shares applied for. Equally, it is under strong pressure from critics of privatisation not to sell state assets too cheaply, a charge often made despite an increasingly careful pricing procedure having been instated.

The attitude of investors has become dominated by a tendency to await sales of shares in unlisted private sector companies, which control 45 per cent of the economy. By far the most

attractive enterprises expected to be offered on the stock exchange are family-owned private sector companies, who appear increasingly prepared to rescind some of their traditional control in return for the gains in capitalisation offered by share

privatisation.

The \$2bn steam power plant, to be built for Saudi Consolidated Electric Company for the Western Region (Secco-West), has been touted since 1996 as the first independent power facility in the kingdom, using build-operate (BOO) financing.

But it now appears that the government will have to do the job itself. The state is increasingly reluctant to carry the cost, and still more reluctant to accept the implications of allowing the private sector to do the same job profitably and more efficiently.

According to industry and electricity minister, Hashem Yamani, the tender for Shuaiba comprised four options.

The BOO option would leave responsibility for financing the plant during a 20-year period to a private consortium, which would own and operate Shuaiba, recovering its costs from power generation revenues.

The second option was for a lump-sum turnkey approach by which the government would cash-finance each stage of the

construction and, like all other power plants, own and operate it after completion.

The third and fourth options were variations of the second: turnkey contracts on the basis of separate eight and 10-year extended financing.

The BOO option initially drew bids from five groups combining heavyweight companies from both Saudi Arabia and overseas. But by last November Secco-West's director-general, Bakr Khoshaim, was saying a turnkey approach would have to be adopted as there was "no time" to wait.

There is some justification for this argument. Power consumption is rising 10 per cent a year throughout the country, and building the 1,750MW power station at Shuaiba is urgently necessary.

But other reasons underlay official disillusion of privatising Shuaiba.

Construction on a BOO basis would mean the owner running Shuaiba profitably as a prelude to making Secco-West commercially viable. That in turn would mean a wholesale restructuring not only of Secco-West, but the entire power sector, including drafting – and the government approving – a fresh

legal and regulatory framework.

Critics accuse the government of dragging its feet in the face of these damming options.

First, privatisation would mean the gradual end of state subsidies, which cost nearly \$1bn a year in the power sector alone, a figure which officials say the state cannot afford when budgets are in deficit.

Abolishing subsidies, however, is a politically delicate subject.

Second, running Shuaiba as a private commercial venture would mean allowing foreigners into a strategically sensitive area.

But the option of keeping things the way they are may be even less attractive.

In these days of low oil prices and revenues and monetary reserves lower still, the government does not relish the prospect of having to spend, according to Mr Yamani, \$116.8bn in the next 25 years on power generation, excluding capital costs for transmission and distribution.

For Shuaiba alone, the government would want to borrow to finance construction. But bankers are not keen to lend to Secco-West, whose \$260m loss in the year to June 30 was only the latest in a series, without a sovereign guarantee from the

government. That, says Mr Yamani, will not be forthcoming.

Bankers this month were sceptical that industry re-structuring will be done quickly, or thoroughly enough to satisfy Secco-West or the banks. However, even if Shuaiba were to remain a state project and Secco-West a state entity, there are ways to make it a more attractive credit risk.

Separate electricity generating plants could be set up under the Secco umbrella to operate profitably. Distribution and transmission companies would remain as they are, relying on state subsidies.

If Mr Yamani had his way, "corporatisation" of the entire power sector "would be done tomorrow," he insisted this month. He issued an unprecedented directive in August authorising foreign investors to participate in power projects. "But corporatisation is still being discussed by the cabinet," he says.

That is a delicate way of saying, according to industry observers, that the cabinet has vetoed the whole idea, as the state is not yet reconciled to the concept of "privatisation".

Robin Allen

GULF COUNTRIES • by Mark Huband

Control stays with the ruling families

Rigid political control tends to encourage 'participation' by private sector

The Gulf states have attracted private sector investment, encouraged stock market trade and allowed greater foreign access to the economies of the region, but not in a way which has resulted in meaningful privatisation.

Control remains with ruling families, whose preferred phrase is "private sector participation".

Privatisation implies a thriving private sector. In Saudi Arabia, the state has in essence been privatised and control lies in the hands of the ruling elite.

The government does not want to deter would-be investors by disappointing those who fail to secure a meaningful proportion of the shares applied for. Equally, it is under strong pressure from critics of privatisation not to sell state assets too cheaply, a charge often made despite an increasingly careful pricing procedure having been instated.

The attitude of investors has become dominated by a tendency to await sales of shares in unlisted private sector companies, which control 45 per cent of the economy. By far the most

and political power of the region, it is unlikely that any political decisions will be made which will shake-up investment patterns. Private sector investment is therefore unlikely to take off unless state ownership is reduced through privatisation.

The downside of state control has slowly dawned on the region's decision-makers. When the lossmaking state-owned Saudi Arabian Airlines failed to find \$4.5bn for new aircraft it had to approach international capital markets, which demanded a sovereign guarantee. This from a country whose stock market capitalisation stands at \$28bn.

Privatisation of utilities would require a widespread overhaul of pricing, billing and service provision before foreign investors would consider seeking a share.

Scale is everything. Saudi Arabia is reckoned by its senior officials to need \$116.8bn over 23 years to build new power stations. It will find such ambitions hard to realise without adopting private sector build-operate-transfer (BOT) schemes, which will chip away at state control.

It has been left to the smaller states to spearhead moves towards attracting a real private sector role through privatisation. Even so, this process has been

extremely limited.

Qatar has now awarded 60 per cent of the contract to build an aluminium smelter to Norsk Hydro. This ground-breaking deal marks the first time any Gulf state has allowed a foreign joint-venture partner, in this case with the state-owned Qatar General Petroleum Corporation, to hold a majority stake.

Despite acceptance elsewhere – notably in Oman and Bahrain – of foreign majority stakeholding, theory has yet to become reality. Oman has secured substantial project finance for state-led investments and infrastructure projects, as well as being home to the

region's sole private sector power plant, the 90MW al-Manah power station. But the government withdrew the privatisation of the Salalah Water and Sewage Company because of difficulties over agreeing an accurate sale price – the value of the company being skewed by subsidies and widespread non-payment of bills.

Bahrain has changed its law to allow 100 per cent foreign ownership of companies. It has also drawn up a favourable tax regime and currency regulations to attract investors. But privatisation has yet to follow, with the future sale of Bahrain Telecommunications.

Company (Batelco) a long way off.

Abu Dhabi stands out for having instituted a series of initial public offerings, despite not having a stock exchange on which to trade them. This year eight IPOs are planned in sectors ranging from banking, gas distribution and telecommunications to television.

However, the absence of a stock exchange – the only Gulf Co-operation Council state without such a facility – has deterred private sector share issues within the UAE states, and led to unauthorised trading in shares in markets renowned for insider dealing and price manipulation.

Kuwait's commitment to

We all wish for a similar economic growth.

Chances are it can happen through the stock exchange.

The Egyptian Market needs no longer to be introduced, the potential is evident.

Focus is based on your choice of a local partner. Delta EAB Brokerage has built a reputation for providing a personalised service.

Looking towards the future, a retail service will be needed. Delta EAB shall provide this service through 29 branches spread throughout Egypt.

Delta EAB extends a complete range of brokerage and book keeping services, including research, recommendations, market analysis and efficient trade and after trade services.



Address:

5A Abu Bakr El-Seddk - Mohandessin - Cairo - Egypt
Tel: (202) 335 2480 - 337 5710 - 336 7595 - 335 2404 - 360 6482
Fax: (202) 337 2863
E Mail: deltaeab@usa.net
Website: www.deltaeab.com

THE CASABLANCA STOCK EXCHANGE IS TRANSFORMING ITSELF TO BETTER FINANCE THE KINGDOM'S GROWTH

A strong, sustainable and solid growth... something we all wish for. At a time when Morocco is strengthening its partnership with Europe and modernizing its business climate, there is no room for wishes, but action. Actions that create wealth.

Today, the Casablanca Stock Exchange has become a transparent trading market and fully assumes its role by draining national and international savings and channelling them towards high growth sectors.

Today, the Casablanca Stock Exchange has the human potential, the technology and the credibility needed to foster our country's economic growth.

LET YOUR ASSET GROW THROUGH THE CASABLANCA STOCK EXCHANGE.



4 JAPAN'S FINANCIAL REVOLUTION

PROFILE KANTOH SECURITIES

Speculating at the sharp end of the securities market

Gambling is officially frowned upon by the Japanese authorities, so people invest in the stock market instead. But will the arrival of deregulation spell the demise of the numerous discount brokerage houses that fulfil the nation's innate desire to punt?

At the smoke-filled offices of Kantoh Securities in central Tokyo one recent morning, speculation was in full swing as a hard core of the firm's 2,000 customers congregated around flickering screens. Kantoh is one of the many firms that rely almost exclusively on commission income for survival, and its executives are predicting some tough times ahead when fixed commissions are abolished next year.

It is at this end of the securities market, with virtually no exposure at the moment to foreign competition, that resistance to Japan's Big Bang is strongest,

although most are not in any position to influence its timing or outcome.

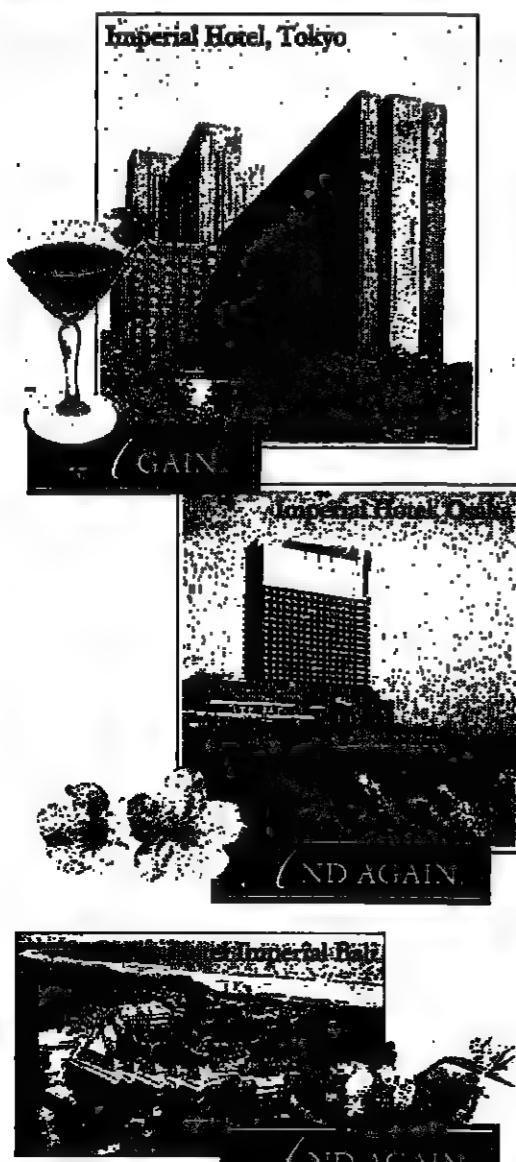
"We are forecasting a drop in commission income of 40 per cent, so we are worried and concerned," says Tadatoshi Kondo, president of Kantoh. "If our commission income falls by that much, it will cost us ¥800m over three years."

The 30 or so people in the office that morning are among about 200 people Mr Kondo describes them as "more or less semi-professional investors" - who are responsible for the bulk of the firm's commission income. Kantoh had total revenues of ¥144m in the year to March 1997, of which ¥67m came from commissions.

"These customers are free to choose what they

Vincent Boland

RECEIVE A ROYAL WELCOME



How to royalty for over 100 years, the Imperial Hotel now proudly welcomes you in Tokyo and Osaka, and on the island of Bali. Three magnificent locations. And everywhere, the same legendary hospitality. At the Imperial Hotel, wherever you stay, you'll enjoy a crowning experience. One you'll want to repeat, over and over again.



IMPERIAL HOTEL

For reservations: Imperial Hotel, Tokyo: Tel (03) 304-1111; Imperial Hotel, Osaka: Tel (06) 91-1111; Hotel Imperial Bali, Bali, Indonesia: Tel (62361-730736); The Leading Hotels of the World: United States, Canada: Tel (800) 221-6800; all free; New York: Tel (212) 358-3110; Fax (212) 358-7367; for nearest travel agent.

For information: The Overseas Sales Office of the Imperial Hotel: London: Tel (171) 355-1777; New York: Tel (212) 692-5001; Los Angeles: Tel (213) 562-6214; <http://www.imperialhotels.co.jp/>

THE BROKERS • by Vincent Boland

Difficult days for securities houses

The brokerages depend heavily on commissions which are due to be abolished

After the collapse of Yamai Securities at the end of last year, the lesser-known firm of Kokusai Securities was propelled into the spotlight by taking its place as Japan's fourth-biggest securities company, behind Nomura, Daiwa and Nikko.

It is a position that makes Koichi Kame, Kokusai's executive managing director, a little uneasy. "We never wanted to be in the top four, but we are now. Quite frankly, market share has never been our aim, but profitability is. In that sense we are somewhat unique," says Mr Kame.

Because these are difficult days for Japan's fabled securities houses - a moribund stock market, the imminent ending of fixed commissions, intense competition, and the ever-present threat of scandal - the league table has never been more fluid. And not all the surprises the industry is facing are likely to be as pleasant as Kokusai's sudden elevation to the top rank.

Japan's brokerages are heavily dependent for their income on fixed commissions in the coming months. Mr Kame describes the merger as a strategy for surviving Big Bang, a strategy that will have to be embraced by other discount brokers after years of losses caused by the stock market slump.

"This merger is a sincere hope that we will continue to survive after Big Bang, but I am more worried than confident," he says. Nevertheless, Mr Kame is counting on the patriotism of the Japanese, and especially of his type of investor, to shun the blandishments of foreign competitors and remain loyal to firms such as Kantoh.

What happened next took

Sanwa, one of Japan's largest, took an innovative step.

With Big Bang looming, it proudly announced it would offer customers a service no other Japanese bank had done - telephone banking.

What happened next took Sanwa by surprise. Sumitomo, another huge bank, promptly started telephone banking as well - precisely one day before Sanwa. "We wanted to show we could be first," says a Sumitomo executive cheerfully.

The tale might seem trivial. But it points to a wider - and potentially momentous - shift in Japan's banking world.

Until now Japan's banks have operated through cosy collaboration, not rivalry. But Big Bang promises to create a newly competitive climate. As the banks scramble to respond, the uncertainty now is whether this competition will leave the banks looking stronger than

Japan's economy was growing

before - or whether the attempt to make Tokyo a globally competitive financial centre will take place at the expense of the domestic banks.

Drastic change is certainly needed because, with or without Big Bang, the fact is that Japan's banking system is currently in a mess.

The basic problem is that during the past five decades the government has developed the financial sector around a

national goal of directing

savings to manufacturers, rather than building profitable banks. Banks, for example, have maintained close links with customers through cross-shareholding.

Competition has been

reduced by a so-called "convoy" system in which strong banks were expected to support the weak.

Businesses were strictly

segregated: Japan's three

long-term credit banks provided long-term lending; the 10 "city" banks focused on

retail business; the seven trust banks offered asset

management services; and a

mass of regional banks served local clients.

This pattern worked when

Japan's economy was grow-

ing rapidly. But it is now in

crisis. The bursting of the

1980s bubble has left the

sector weighed down with huge

problem loans, currently put

at some ¥77,000bn. The

falling stock market has slashed

the value of the banks' equity

portfolios, which the

banks count towards their

capital.

Meanwhile - and most crucially - the banks' business

franchises are vanishing.

Japanese companies no longer rely exclusively on the

banks for funding: since

1983, companies have

increased their reliance on

capital markets from 29 per

cent of funding to 42 per

cent.

Spreads on corporate lending

have slumped. And though some banks have

wanted to diversify, they

have been prevented by

industry segregation.

Most banks have been increasing

their loans to non-bank

businesses, but this has

been offset by a

sharp decline in

corporate lending.

Businesses were

also hit by a

sharp decline in

corporate lending.

Meanwhile, deregulation

has already increased

opportunities for those

companies willing and able

to take advantage of them.

Life companies are

being allowed to move

into the non-life sector,

and vice versa, while the

third sector - areas such as

critical illness coverage

- which has long been the

home territory of the for-

ignorant insurers, is to be

opened up to all comers.

At the same time as other

regulations are being

relaxed, the government is

planning new legislation to

help prevent more collapses,

and protect consumers if

they should happen.

Firstly, the finance

ministry will monitor the solvency

levels of insurance compa-

nies, particularly life assur-

ers, more closely. It became

clear after Nissan Mutual

failed that the company had

been insolvent for months, if

not years. The new system

will force insurers to dis-

close information about

their financial status to regu-

lators, who can then insist

on prompt action to deal

with the problem, rather than

allowing business to con-

tinue as usual.

And in case this early

warning system does not

prevent further collapses,

policyholder protection cor-

porations" - that is to say

the life sector, several com-

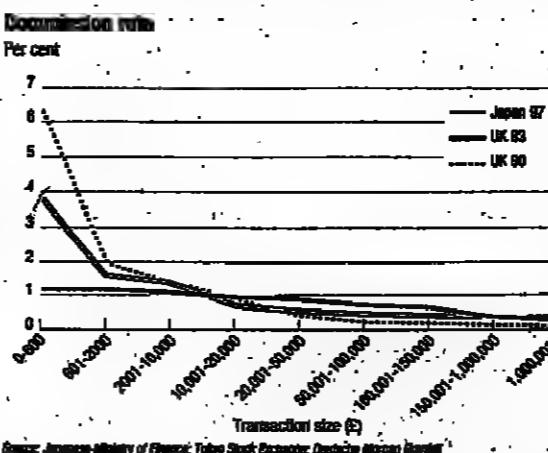
panies have been given highly

marginal ratings.

Nissan Mutual's downfall

hit unsuspecting policy-

holders, who had assumed



Source: Japanese Ministry of Finance, Tokyo Stock Exchange, Deutche Wertpapier Börse

Kankaku and Wako, have

been so fortunate.

Others are now seeking to copy Kokusai's formula. Daiwa Securities unveiled its own Big Bang strategy at the end of last year that included reorganising management, increased investment in technology, developing a global product line including investment banking, introducing the bonus system of rewarding staff, and allowing staff over 50 to retire earlier than the statutory age of 60 if they wish.

The strategy is all based

on the understanding that

we will not survive intensi-

ty competition without it,"

says Shinichi Yamamura,

Daiwa managing director

and board member.

Daiwa, Kokusai and a

handful of others are either

big enough or nimble

enough to survive. But

Japan's large number of

under-performing or loss-</p

Europe hopes
our action

FINANCIAL TIMES SURVEY

Thursday March 26 1998

JAPAN'S FINANCIAL REVOLUTION

The planned financial reforms could revive Japan's ailing economy. But there are crucial problems still to be resolved. Gillian Tett reports

Big Bang or just a whimper?

Japan is not a country which likes radical revolution. Next week, though, it may start on one. On April 1, the country will officially begin its much-heralded and ambitious programme of so-called "Big Bang" financial deregulation. The question now is whether this will indeed turn out to be a Big Bang that transforms its financial sector - or simply a whimper that disappoints.

The answer matters intensely, not only to Japan but also to the outside world. Japan is the world's second-largest economy and contains a third of the world's savings. But since the collapse of the 1980s bubble, its economy has stagnated. The stock market has more than halved in value and its banking and broking system is weighed down with debts, falling revenues and losses. These are grave problems and they reflect another issue: Japan's financial system is ill suited for a modern economy.

Over the past 50 years, the needs of savers have taken second place to industry's demand for cheap loans. Returns on household financial assets have averaged a mere 2.5 per cent, for example, during the past 15 years. Capital markets are poorly developed. Meanwhile, the financial sector is highly regu-

lated and uncompetitive. The Japanese government now has pressing motives to change this. The population is ageing and urgently needs better returns on its savings. And Japan's national pride has been dented by a flight of business from Tokyo to other financial centres, such as London and New York.

A third of all trades in Nikkei 225 futures, for example, is currently conducted not in Japan, but Singapore. Similarly, only 87 foreign companies are now listed on the Tokyo Stock Exchange, compared with 230 in New York, 533 in London, 560 in Frankfurt and 187 in Paris.

In theory, Big Bang could address these sort of problems; in essence it aims to inject a burst of competition into the hitherto protected financial sector by tearing down industry barriers, financial cartels and obstacles to innovation.

The details of how Big Bang may achieve this are complex but there are three key points to grasp:

● Firstly, the reforms are not actually occurring in a single "bang", but in a staggered manner. April 1, for example, has been cited as the official "start" because on this date two changes occur: foreign exchange controls will be removed, and stock broking commissions will be partially liberalised.

Such steps have great symbolic value. Similar reforms in the late 1970s and 1980s in the US and UK helped trigger the financial revolutions in New York and London's "Big Bang" in 1986.

Liberalising foreign exchange has a particular importance because it could spur more reform. Removal of foreign exchange controls will make it easier for Japanese companies and investors to use financial services outside Japan. It could thus create a massive capital flight, unless Japan becomes more competitive.

But these changes are only part of the plan; a further wave of reforms will be unveiled between now and 2001. The real impact of Big Bang will not become clear for several years.

● The second point is that the reforms are much broader in scope than the British "Big Bang". London's reforms centred on the liberalisation of stock broking commissions but Japan's version is aimed at changing the way capital is used in the Japanese economy. Con-

sequently, it affects not just the securities sector but also banking, asset management and insurance.

● The third issue is that the "Big Bang" process involves more than the official timetable alone. The debate about change in Japan has itself prompted a shift in cultural attitudes, even before the new laws bite.

Change is being driven not just by "top down" orders, but also "bottom up" market pressure, as companies seek better funding channels and investors demand higher returns on their savings.

So does this mean that a revolution is now inevitable? Perhaps. But the speed and scale of Big Bang remains uncertain because in spite of all the government's bold pledges about change, the project still faces crucial questions. One is whether Japan will accept the pain that a genuine Big Bang could inflict on the country's banking and broking sector. The government insists Big Bang is not intended to protect Japanese companies, but to make Japan more

competitive as a country. who did not want the money - and weak ones that have assumed the project must benefit banks, brokers and life insurance companies.

Some companies may indeed emerge strengthened from Big Bang but genuine competition could have a devastating impact on weaker companies. For Japan has massive excess capacity in its financial sector. Until it removes this, the strongest groups will not become competitive by world standards.

Consolidation has started. Over the past year several brokers have failed, including Yamaichi, Japan's fourth-largest. One life assurance company, Nissan Mutual, has collapsed. Several regional banks have merged, and Hokkaido Takushoku, one of the top 20 banks, has collapsed.

But the pace of change is mixed. This month the government, for example, announced it would pump Y1,800bn of public money into 21 banks to help them shore up their capital base. This included strong banks,

are unlikely to oust Japanese banks in their traditional domestic niches of retail banking and corporate lending. But foreigners could certainly win the prizes in the new - and most lucrative - business niches, such as specialised investment banking products. If this happens too visibly, nationalist instincts might reappear, which in turn could hurt Japan's attempts to attract international business.

The third risk is the regulatory climate. Big Bang will not succeed unless Tokyo can persuade investors that its markets operate in a transparent manner. This has blatantly not been the case in the past, as recent streams of corruption scandals have shown.

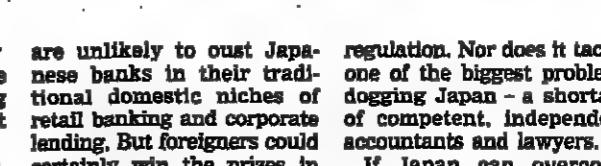
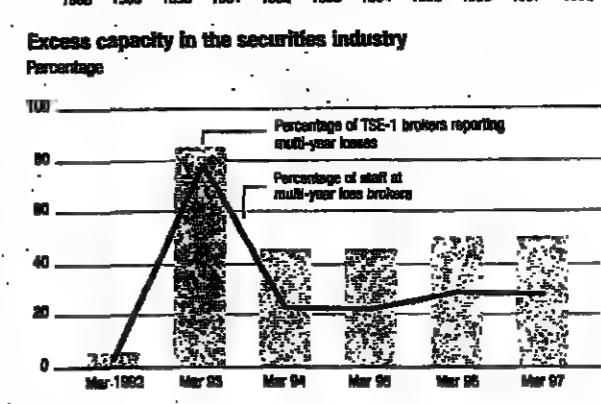
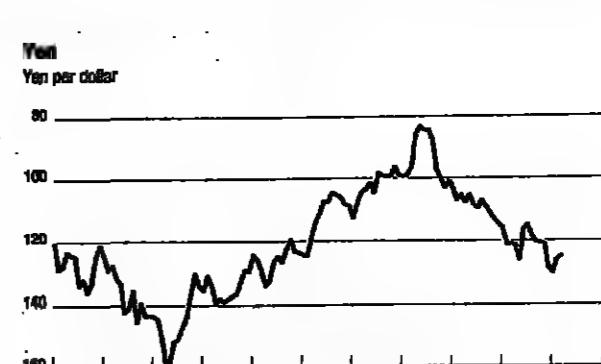
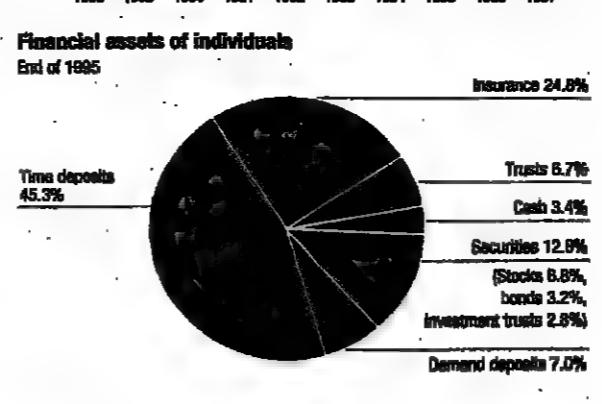
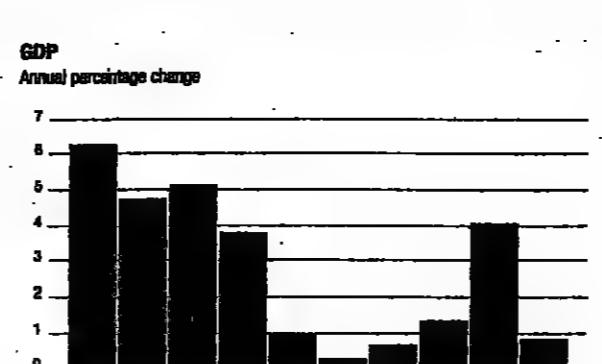
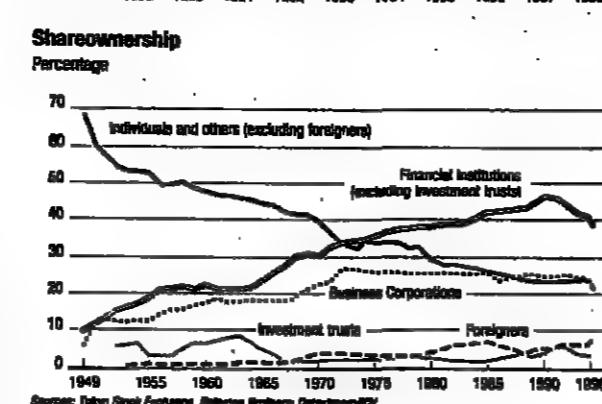
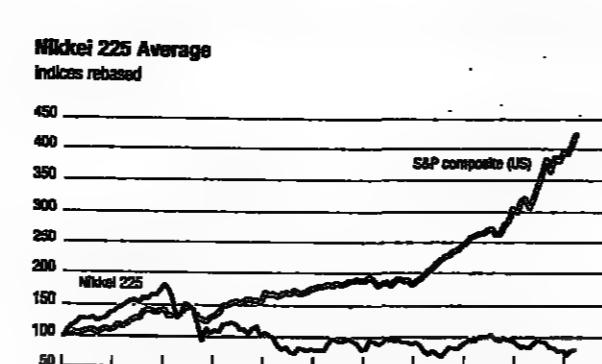
The government has now pledged to change this, but if Tokyo cannot create an effective regulatory environment, deregulation could simply accelerate the "hollowing out". And at present the scenario gives relatively little emphasis to the problem of

regulation. Nor does it tackle one of the biggest problems dogging Japan - a shortage of competent, independent accountants and lawyers.

If Japan can overcome these three risks, then the country may indeed be on the verge of momentous change. Japan's vast pool of savings could partly move out of the banks and into new investment instruments. Some strong Japanese financial companies could emerge from the current mass of mediocre banks, brokers and life insurance companies. Japan could become the world's second-largest asset management and investment banking market for western firms.

But if reform is half-hearted, it could actually exacerbate Japan's financial "hollowing out". And this in turn would further damage the economy.

The world has every reason to hope that what starts today will be a genuine Big Bang - and not a series of painful whimpers. The coming years are crucial ones.



THE RECIPE FOR BUSINESS SUCCESS IN JAPAN



Let us send you a FREE CD-ROM,
"YOUR BASE FOR SUCCESS IN JAPAN: TOHOKU"
...and show you why so many major U.S. corporations are investing in Tohoku.

Discover TOHOKU. The reason wise investors now choose Japan.
With your dollar WORTH 40% MORE than 3 years ago, now is the time to act.

Low Costs
Land prices in Tohoku and labor costs are highly competitive, despite an outstanding location and skilled workforce.

Excellent Financial Support
A superb support system offers generous tax incentives and financing to companies locating in the region.

Good Life
Tohoku is simply a great place to live. Easy to get to, spectacular scenery and a guaranteed warm welcome.

E-mail us today for your FREE copy!
Email: Koryu@tohoku-epco.co.jp

Or fax us at 81-22-227-8390.

For inquiries, call 81-22-225-3052. (10:00-17:00, Japan Standard Time)

Tohoku
Electric Power
Co., Inc.

WHY LTCB?



Because while others watch the clock,
we know that time is money

Speed is often the difference between success and failure. And as a wholesale bank with a full range of financial and investment banking services, we routinely deliver fast, innovative answers to corporate financial needs. We'll give you support for the long term, too. We're The Long-Term Credit Bank of Japan.

 LTCB
The Long-Term Credit Bank of Japan, Limited

Tokyo, London, Paris, Frankfurt, New York, Chicago, Los Angeles, Philadelphia, Toronto, Atlanta, Dallas, Mexico City, São Paulo, Hong Kong, Singapore, Seoul, Bangkok, Chon Buri, Ayutthaya, Labuan, Shanghai, Beijing, Guangzhou, Kuala Lumpur, Jakarta, Sydney

2 JAPAN'S FINANCIAL REVOLUTION

POLITICS • by Michiyo Nakamoto in Tokyo

Decision to opt for Big Bang came as a surprise

Bureaucrats and politicians both had good reason for promoting financial reforms

The Japanese leadership has traditionally been sceptical of sweeping changes.

Elite bureaucrats who are charged with policy formulation have tended to favour a gradual approach towards reform, while Japanese politicians, for their part, have seldom shown much appetite for launching bold policy initiatives.

So the decision to set in motion a financial "Big Bang" aimed at opening up the country's highly protected financial industry in one broad swoop, came as something of a surprise.

Was Big Bang a bureaucrat-led initiative designed to breathe new life into Japan's flagging financial industry, or an attempt by

reform-minded politicians to wrest policy formation away from the mandarins? Or did US pressure, which has been recent deregulation measures implemented in Japan, have a role to play?

"The US has always been involved in the liberalisation of Japan's financial markets," points out Susumu Saito, director of Trilateral Institute, a private think tank.

When Ryutaro Hashimoto, the prime minister, unveiled his plan to launch Big Bang on November 11, 1996, he appeared to be the main driving force behind the decision. After all, Mr Hashimoto had made his second term in office would be far-reaching reform of the way Japan works.

But Mr Hashimoto is also known for his close ties to bureaucrats, and former bureaucrats. A loner within his own political party, he

relies for policy advice predominantly on his closest aides whom he plucked from the Ministry of International Trade and Industry (Miti) and the Ministry of Finance (MoF), both of which he previously headed.

In particular, Atsuo Saka, executive assistant to the prime minister and a former finance ministry bureaucrat, together with a group of like-minded bureaucrats at the MoF, are credited with planting the idea of bold and rapid financial liberalisation in Mr Hashimoto's mind.

Mr Saka, who served as Mr Hashimoto's secretary when he was finance minister, was personally recruited by the prime minister to serve as his aide.

The pro-reform group advising Mr Hashimoto includes Etsuko Sakakibara, vice-minister of finance for international affairs, who is known as "Mr Yen" for his unofficial role as Japan's top financial diplomat.

For these supporters of Big Bang reforms within the MoF, speedy financial liberalisation was the key to regaining Japan's status in international finance and Tokyo's role as a leading financial centre.

Mr Sakakibara has been a strong advocate of increasing the yen's role as an international currency. With the Euro expected to become the leading international currency after the dollar in a few years' time, the yen, and with it Tokyo, was likely to be relegated to second-class status unless something was done quickly.

There was concern that the Japanese financial industry would fall behind New York and London, and that (stem Tokyo's decline as a leading financial centre) would require very major and rapid reforms," recalls Yoshimasa Nishimura, who was director of the MoF's banking bureau until a few months before Mr Hashimoto's surprise announcement and is currently a professor at Waseda University.

That view was not necessarily held universally within the MoF. There were many MoF officials, including Mr Nishimura, who pushed for a more gradual approach to change that would aim to deal first with the problems in Japan's financial system, including the banks' huge bad debts. This group felt that "once those problems are addressed, Tokyo will automatically become a stronger financial centre," Mr Nishimura notes.

The views of this more conservative camp are more typical of the MoF's traditional, piecemeal approach to reform.

Nevertheless, in the end, the arguments for speedy liberalisation to maintain Tokyo's competitiveness won.

The victory of the MoF radicals is probably due in

part to the close personal relationship between the prime minister and Mr Saka and the surprising comeback of Mr Sakakibara, whose influence had previously been all but written off when he was appointed head of the Institute of Fiscal and Monetary Policy in 1994.

But at the same time, the spread of bureaucrat-bashing, focused on the finance ministry, is likely to have played a significant role.

One of the major reasons why financial reform has come this far is because it came hand in hand with widespread criticism of bureaucrats." Mr Nishimura points out. "Fifty years after the war, there is a public consensus that the Japanese system has to change." It is against that environment that the need for rapid financial liberalisation won widespread public approval, he says.

Even politicians who would normally have been expected to lobby on behalf of those with vested interests in the financial industry, had little ammunition with which to resist calls for rapid reforms.

"Japan's financial system has reached a point where everyone recognises something has to be done," says Mr Nishimura. The scandals in the industry and the finance ministry and the clear decline in the competitiveness of Japan's financial industry has made it difficult for politicians who may want to postpone or even scrap Big Bang, to claim that Japan's financial system is fine as it is, he notes.

The problem is that while few people question that change is needed, there are serious doubts as to whether Japan is really ready for Big Bang. "I don't think it is a good time to go through with Big Bang. The industry is not strong enough and Big Bang will lead to destruction," says Mr Saito.

But even if Big Bang proves to be the disaster some people think it will be, as a bureaucrat-led initiative, few, if any, are likely to be called to account.

THE ECONOMICS • by Paul Abrahams

Ageing cohort needs faster growth, higher returns

The problem of Japan's rapidly ageing population overshadows most other issues

The economic rationale for Japan's financial revolution is evident. The system that provided such spectacular growth between the 1950s and late 1980s now appears incapable of delivering sustainable economic expansion.

The economy's lacklustre performance would be bad enough if Japan's requirements were static. But the country's rapidly ageing population needs faster growth as well as higher returns on its life policies and pensions if the elderly are not to become a huge financial burden for the economy in the next century.

The ageing issue overshadows the entire policy debate in Japan. The population is

already the second most elderly in the OECD (Organisation for Economic Co-operation and Development) area. Falling fertility rates have cut the number of young people, while improved mortality rates are set to increase the number of elderly. By 2025, the average age of the Japanese population will be the highest in the OECD. Brokers Morgan Stanley estimates the dependency ratio - the number of pensioners supported by members of the active population - will reach an astonishing 56 per cent by 2010, the highest ratio among the Group of Seven industrial democracies.

The question facing Japanese policymakers is how to support this ageing cohort. Their task would be made easier if the economy was expanding at its historically average down

meanwhile, despite the collapse in stock prices, the market's dividend yield remains below a pitiful 1 per cent. Japan's corporations may have been habitually

disinclined to distribute cash to shareholders, but even if they wanted to, few could presently afford to do so. It is hardly surprising that Japanese pension funds' current rate of return is well below their 5.5 per cent target.

The economic requirement to revolutionise the financial system is clear. "What the Japanese were doing before has stopped working," explains Peter Tasker, strategist at Dresdner Kleinwort Benson in Tokyo.

The theory is that once the antiquated financial industry has been liberalised, capital will be allocated more efficiently, the economy should recover, and returns on the Y1.200,000 of personal savings in Japan will improve. But doubts remain whether the reforms, in their present form will be able to deliver. Jason James, strategist at HSBC James Capel in Tokyo, explains:

"In order to increase returns you have to have a mechanism to improve corporate governance. Share buy-backs as a method of returning capital are only just being introduced, and managers do not have an incentive to raise the share price because they do not own options. And if there is no carrot in the form of options, there is also no stick in the form of hostile takeovers."

Mr James believes there is little prospect of such a discipline entering the Japanese market because of the continuing importance of cross-shareholdings between companies, accounting for about 45 per cent of outstanding shares.

Middle-aged and elderly Japanese women at a health and beauty farm in Tokyo. Life policies and pensions must perform better if the elderly are not to become a huge financial burden

There is, moreover, a real danger in that in the short-term Japan's Big Bang could make the situation worse before it becomes better. "The consequences of Big Bang have been underestimated," says Mr Tasker. "It will create the possibility of massive cuts in capacity in both the banking and broking industries. The effect on certain parts of Japan of closing down some regional banks could be devastating. It is far from clear that the government is prepared to face the consequences of throwing people out of work."

Mr Tasker stresses the difficulties confronting policy-makers: "They are trying to sort out the private financial sector at the same time as restructuring public sector financing - that's quite a lot at one time."

Moreover, there is a real danger that if the reforms do create changes, then the government will back-slide on its commitment to reform.

"Nobody knows how robust the Japanese economy is," says Palham Smithers, strategist at ING Barings in Tokyo. "The proposals are as broad and as flexible as possible, so that if anything becomes too detrimental, it will be stopped. We've already seen backsliding in the case of Post

Office privatisation, which was stopped by interest pressure groups."

However, Mr Tasker believes that once the process begins, it will prove impossible to control. "There is no coherent opposition to Big Bang. You can't stop the changes in foreign exchange regulations; you won't be able to stop foreigners introducing new products; and you won't be able to end the freedom of choice of how to invest. Nobody is proposing anything else. There is no alternative."

Japan's future pensioners must hope the pain to come will nonetheless deliver the returns they need.



THINGS THEY NEVER TELL YOU WHEN YOU BUY ENTERPRISE SOFTWARE.
Want to make a change?
Go ahead, try to run with it.

So, you have a new idea. Just see how fast you can implement it with most enterprise software. Your first step is likely to be paying for programmers to wade through a complicated mess of cryptic code. Sound like a speedy proposition to you? Classes are, it'll take months. And the software you bought to move your business ahead actually ends up slowing you down.

With JD Edwards, it's different. Our software is actually designed to change. So you can make a simple business

move without creating a technology nightmare. Or change your technology without disrupting your business.

How? One version of our software works across key platforms: Windows NT, UNIX, AS/400 - even the Internet. So when you need to make a change, you only need to do it once. Which makes you nimble enough to react to any opportunity. Quickly and easily. That's how enterprise software ought to be. To find out more, call 0118 909 1700 or visit www.jdedwards.com.

JDEdwards
Enterprise Software

How it ought to be.

Copyright © J.D. Edwards World Source Company, 1997. J.D. Edwards is a registered trademark of J.D. Edwards & Company. The names of all other products and services of J.D. Edwards and its affiliates are trademarks or registered trademarks of J.D. Edwards & Company. All other product names and trademarks are trademarks or registered trademarks of their respective owners.

A place in the holy trinity

The implications for Tokyo's role alongside London and New York are enormous

Even in these recessionary times there can be no doubt that Tokyo is one of the world's great cities. From the shopping streets of Ginza to the sleek skyscrapers of Marunouchi, it contains the sort of concentrated wealth seen in few other capitals. Its streets hum with activity, its metro system is unbeatable, and its nightlife is unique.

Tokyo's financial market is important, too. But how important? Japan is the world's second-biggest economy, but what would the global financial markets lose if Nomura's headquarters were to be levelled by an earthquake (everybody says the Big One is coming)? Is Tokyo a match for New York or London? Does it want to be? Is that what Big Bang is all about?

Japanese officials are somewhat ambivalent about what exactly Big Bang is supposed to do for Tokyo as a financial centre. Students of economics and finance, asked to name the three leading financial centres, would already surely reply by naming New York, London and Tokyo, probably in that order. On that basis, there appears to be little need for a Big Bang at all. But that is not the point.

The point, officials and bankers say, is that deregulation will make Tokyo more useful to the Japanese economy

as much as to the world, and especially in Asia, where it has been facing growing competition in recent years from more nimble centres such as Hong Kong and Singapore.

Clearly, there is international interest in Tokyo as an international market, and we are pleased to see that this trend is occurring," says a senior official at the Ministry of Finance (MoF). "We would like to make Tokyo as global as London or New York."

"But in the end, London is truly global while the New York market retains a lot of the characteristics of a national, US market. I see Tokyo as being more like New York than London."

There can be no doubt that Japanese financial sector executives and government officials have learned a lot from studying the effects of Wall Street's "May Day" reforms and the UK's Big Bang. But many observers, and not just locals, argue that the pace of technological change since these financial "revolutions" will mean that the impact of Japan's Big Bang will change not just its financial sector but its entire economy and way of doing things.

Betsy Daniels and Hideyuki Ban analysts at Morgan Stanley, wrote last August that because of the development of technology, what Japan is proposing is unprecedented.

"Other economies were luckier," they noted.

"Deregulation of financial institutions occurred before there was technology that allowed the marketplace to

register time in fractions of a second. Japan's Big Bang will severely test the flexibility of Japanese financial and non-financial corporations alike."

The implications for Tokyo's place in the holy trinity of financial centres are clearly immense. Not surprisingly, the government has been criticised for not spelling out what it intends to achieve by making the financial markets "free, fair and global", in the words of Ryutaro Hashimoto, the prime minister whose initiative this is.

There have been complaints that Big Bang inevitably means bankruptcies, closures and collapses, such as that of Yamaichi Securities.

Officials counter that such criticism is miss the point. "There is an impression that what is being introduced is not a Big Bang unless a lot of institutions restructure or fail, but that is not its essence," says Akira Arayoshi, director of the research office at the securities bureau in the finance ministry.

"Because of the weakness of a lot of institutions, financial restructuring has come to the fore. Crisis management is not related to Big Bang. It may have accelerated people's decision-making but it did not create their problems."

"We have been criticised for not showing people a post-Big Bang landscape. We're trying to move away from that. The whole exercise is meant to create a framework that can provide the best services and products get the opportunity to do so."

If Mr Hashimoto's vision is realised, Tokyo will be no different from New York or London. And even if some western observers remain privately sceptical, worrying in particular that what emerges will be free and global but may not entirely be fair, others say Japan is truly at a turning point.

"Anyone who has been observing these issues in Japan for a long time has to start with a certain degree of scepticism," says Matthew Goodman, vice-president and director of government affairs at Goldman Sachs in Tokyo. "But this commitment is different. It reflects a much deeper consensus that the old system doesn't work any more and that change is needed."

There is certainly no shortage of advice for bureaucrats plotting the legislation that will make Big Bang a reality in Japan's generally introverted financial markets. But the acceptance of change, and the need to open the market to foreign competition, appears to be widely accepted, bankers say, although whether Tokyo really does become a free, fair and global market remains to be seen.

"I think the contribution of foreigners is going to be seen as positive," says John Baldwin, chairman and general manager of Jardine Fleming Securities in Tokyo. "There has been a great deal of learning over the past five years and people are now more prepared to say 'Yes, the foreigners were right'."

LOGISTICS • by Gillian Tett

Complex timetable for reforms package

April 1 is the first big milestone, although some measures are already operating

Japan's financial deregulation might have been dubbed the "Big Bang" but in practice it will be more like a long series of "pops" than a single explosion.

The package of "Big Bang" reforms that has been drawn up by the government includes a bewildering multitude of complex changes. These affect not only the banking sector, but securities and insurance business as well. Meanwhile, the timetable itself is spread out over five years, stretching to 2001.

The legislation produced by the Ministry of Finance to support the changes covers a total of 2,129 pages - a stack of paper 9cm thick and weighing in at 4.4kg.

But behind the mass of detail, several clear themes can be identified. In essence, the basic objectives of the reforms are to:

- Tear down the existing barriers between different categories of financial business, by letting insurance, banking and securities business compete with each other;
- Ban cartel-like behaviour such as fixed brokerage commissions;
- Allow financial institutions more freedom in offering innovative financial services such as derivatives;
- Encourage financial industry restructuring by allowing the use of financial holding companies;
- Reduce transaction costs by cutting items such as securities transaction tax;
- Remove asset allocation rules for pension funds; and
- Promote greater transparency in corporate accounting.

Some measures to implement these reforms have already been introduced - even before Big Bang officially gets underway. During the course of fiscal 1997, for example, single stock options were introduced. Banks were allowed to rent out space to asset management companies to sell mutual funds. And some of the existing rules on pension fund allocation have been steadily relaxed over the past two years.

However, the first big milestone - and the official starting point for the Big Bang - is April 1. This is the date when two key reforms occur: the relaxation of foreign exchange controls and partial liberalisation of brokerage commissions. These changes have a particular symbolic significance because they were the crucial triggers for the financial deregulation that took place in London and New York.

The foreign exchange reform, for example, is important because at present a multitude of restrictions exist on capital movements in and out of Japan. The only companies allowed to

carry out foreign exchange business are authorised banks.

Companies or individuals wishing to move more than Y5m across borders must first seek approval from the Ministry of Finance. And foreign exchange "netting" - a practice whereby several foreign transactions are consolidated to save money - is difficult. (Although netting was not technically banned, the legal status of it has been unclear and so many companies have been reluctant to employ it.)

However, the Big Bang reforms will change this. Later this year the legal status of netting will be confirmed. On April 1, restrictions preventing non-banks conducting foreign exchange business will be lifted. And from April 1 prior approval for foreign exchange transactions will be unnecessary.

This could have significant impact. Brokers and trading companies, for example, are likely to develop their own foreign exchange businesses - meaning that they will no longer have to pay fees to banks. The introduction of netting will also cut corporate costs. Indeed, the government calculates the two measures could save Y175bn a year for companies.

But the biggest potential impact is in domestic savings. For after April 1 investors and companies should be able to use overseas financial services more easily. In essence, they will be free to place their money in higher yielding bank accounts, investment trusts or life assurance contracts anywhere in the world.

Some observers fear this could lead to a massive capital flight out of Japan. But it is not clear yet how big the impact will be because domestic companies are scrambling to make themselves more attractive, to compete. And as so often in Japan, there is a crucial catch: although the government no longer demands prior approval for moving funds, it is introducing reporting requirements after the event. This stipulates that banks or brokers must report any movements worth more than Y1m to the tax office.

What the tax offices will do with this is unclear: they do not currently have enough staff to track such flows. But if the new system is perceived as a way to curb tax dodging, it could reduce the size of potential capital flows.

The other eye-catching reform on April 1 - liberalisation of brokerage commissions - is similarly complex. Commissions for transactions over Y1bn have already been deregulated. However, on April 1 commissions on transactions down to Y50m will be removed.

This step could also have huge implications for the brokerage sector: analysts are currently forecasting that commissions could fall by 30 per cent to 50 per cent. This could hurt smaller Jap-

anese brokers who depend on commissions for revenues. But the impact may only become apparent over a long period because commissions below Y50m will only be liberalised in late 1999 (the precise date is unclear.)

Meanwhile, some western brokers have already been quietly discounting their listed fees, or conducting business offshore for clients at lower cost even before April 1.

Aside from these changes, other reforms will also come in on April 1. A new system of bank accounting and monitoring will be introduced. This system, known as Prompt Corrective Action, will demand more disclosure from the banks, and give the Japanese authorities the right to close down any banks which do have sufficient financial strength.

The system was due to be imposed on all banks in fiscal 1998 but was recently delayed for a year for the domestic banks because of fears that they were too financially weak to meet the new standards.

Also in April a 50-year-old ban on financial sector holding companies will be lifted.



The Ministry of Finance produced 2,129 pages of legislation

mutual funds that can be sold will be broadened: private offerings, for example, will be permitted for the first time.

Another change, scheduled for late in 1998, is that the licensing system for securities companies will also be reformed. Instead of having to apply for a formal licence, companies will only have to register with the government. The aim of this is to make it easier for companies to enter the securities business. However, capital adequacy requirements will also be tightened for securities companies. This will make it easier for the authorities to close down companies which are financially weak.

At the same time, non-bank financial institutions will be allowed to issue corporate bonds. This should make it easier for the consumer loan companies, for example, to raise funds for their businesses.

Towards the end of calendar 1998 (the precise date is not yet fixed) another wave of legislation will come in. One key change is that banks and securities companies will be permitted to start mutual fund (or "investment trust") busi-

nesses for the first time. Precise details about how this will operate are still unclear but it will effectively remove many of the supervisory powers from the MoF, although it appears that its staff will be taken from the ministry.

Towards the end of calendar 1998 (the precise date is not yet fixed) another wave of legislation will come in. One key change is that banks and securities companies will be permitted to start mutual fund (or "investment trust") busi-

new competition across the sector, but it is also likely to reinforce the trend towards the creation of universal financial service companies.

The final batch of reforms will occur in fiscal 2000 and largely affect the insurance industry. These reforms have been delayed until the last part of Big Bang largely because of intense opposition from the insurance sector. An additional complicating factor is that Japan has recently been involved in negotiations with the US over the liberalisation of the sector from a trade perspective.

But the Big Bang timetable stipulates that by the end of 2001, insurance, banking and securities companies will be allowed to enter each other's businesses through subsidiaries.

This, in effect, will mark the final stage of Big Bang - assuming, of course, that an already complicated timetable does not become delayed or any more complex between now and 2001.

Photo: Mike Black

Strategy
and
technology
deliver
results.

Another Deloitte Consulting Difference

**DELOITTE
CONSULTING:**
**Strategy
and technology
only deliver
promises.**

**People and processes
deliver results.**

Some consultants specialise in strategy. Others focus on new technology. What too many fail to recognise is that without significant change to the processes people use with these new strategies or technologies, their promised returns will never be fully realised.

At Deloitte Consulting we have always understood how critical people are to implementing real, lasting change. You can see it in our working style - a uniquely flexible, respectful and collaborative approach that prompted one analyst to tell *Computerworld*: "We hear time and again that they are the most user-friendly."

Which is important. Because it helps us get your entire organisation, from boardroom to backroom, to buy into changes at hand. And gives us the ability to transfer the knowledge and skills your people will need to deliver the full benefits of any new strategies and technologies. And to keep those improvements from unravelling after we've gone.

For results you can count on today. And build on tomorrow.

A very different approach. For very different results.

Deloitte & Touche Consulting Group

BIG BANG SCHEDULE

Fiscal 1997:
Options trading in individual stocks introduced.
Asset management accounts at securities firms permitted.
Holding companies permitted; initially restrictions on financial holding companies, but it is planned to remove these later.

Fiscal 1998:
Brokerage commissions on transactions over Y50m liberalised.
Foreign exchange operations, overseas deposits and cross-border securities transactions liberalised.
System of "prompt corrective action" introduced to force troubled financial institutions to take early, corrective action.
Bank of Japan given nominal independence to set interest rates.
Securities and Exchange Surveillance Commission powers strengthened and penalties for financial transgressions toughened.
Rating agency for insurance brokers reformed.
Restrictions on securities derivatives lifted.
Licensing system for securities brokers abolished to encourage the entry of new participants.
Banks permitted to start selling investment trusts.
Financial institutions allowed to establish special purpose companies in Japan for the purpose of asset backed securitisation.
Non-bank lenders allowed to issue straight bonds.

Fiscal 1999:
All stock broking commissions liberalised.
Business restrictions on brokerage houses and trust bank subsidiaries lifted.
Ordinary (or "city") banks permitted to make straight bond issues.
Corporate accounting system will shift towards one based on consolidated, and mark to market accounting.

Fiscal 2000:
Real time gross settlement banking payment system introduced in Tokyo to improve the short-term money market.

Fiscal 2001:
Banks permitted to sell some forms of life insurance.
Banks and insurance companies able to enter each other's businesses through subsidiaries.

Source: reports from the Japanese government's advisory panels on the securities, banking and insurance sectors

4 JAPAN'S FINANCIAL REVOLUTION

PROFILE Kantoh Securities

Speculating at the sharp end of the securities market

Gambling is officially frowned upon by the Japanese authorities, so people invest in the stock market instead. But will the arrival of deregulation spell the demise of the numerous discount brokerage houses that fulfil the nation's innate desire to punt?

At the smoke-filled offices of Kantoh Securities in central Tokyo one recent morning, speculation was in full swing as a hard core of the firm's 2,000 customers congregated around flickering screens. Kantoh is one of many firms that rely almost exclusively on commission income for survival, and its executives are predicting some tough times ahead when fixed commissions are abolished next year.

It is at this end of the securities market, with virtually no exposure at the moment to foreign competition, that resistance to Japan's Big Bang is strongest, although most are not in any position to influence its timing or outcome.

"We are forecasting a drop in commission income of 40 per cent, so we are worried and concerned," says Tadatoshi Kondo, president of Kantoh. "If our commission income falls by that much, it will cost us Y600m over three years."

The 30 or so people in the office that morning are among about 200 people - Mr Kondo describes them as "or less semi-professional investors" - who are responsible for the bulk of the firm's commission income. Kantoh had total revenues of Y942m in the year to March 1997, of which Y673m came from commissions.

"These customers are free to choose what they

want to buy and sell. For a small business like ours, it is important to maintain this type of business," he adds.

Across Tokyo, however, there is growing speculation about what the fate of these and other small brokerages will be once commissions are liberalised. There is one small ray of hope for them - in the US and the UK, after their versions of Big Bang, commissions on small retail transactions actually rose after deregulation. But even if that happens it may not be enough to make up for the loss of business to larger, more professional and perhaps safer firms that is expected to be the trend as deregulation takes hold. That is why some firms, including Kantoh, are looking to merge with similar rivals to gain market share and a firmer foothold in the new market.

Earlier this year Kantoh and Dojima Securities, a discount house in Osaka, announced that they were to merge, in what may be the first of many such transactions in the coming months. Mr Kondo describes the merger as a strategy for surviving Big Bang, a strategy that will have to be embraced by other discount brokers after years of losses caused by the stock market slump.

"This merger is a sincere hope that we will continue to survive after Big Bang, but I am more worried than confident," he says. Nevertheless, Mr Kondo is counting on the patriotism of the Japanese, and especially of his type of investor, to shun the blandishments of foreign competitors and remain loyal to firms such as Kantoh.

Vincent Boland

THE BROKERS • by Vincent Boland

Difficult days for securities houses

The brokerages depend heavily on commissions which are due to be abolished

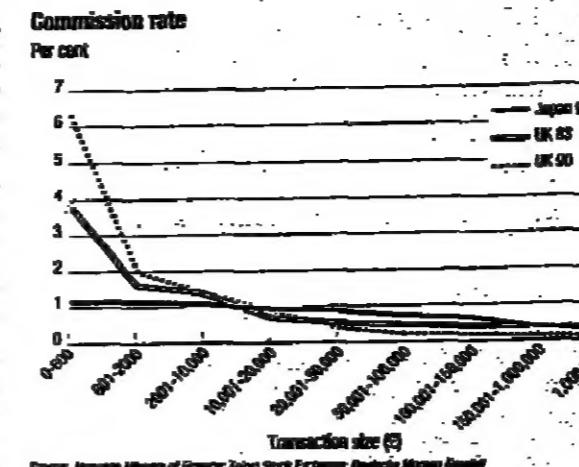
sions, which are to be abolished with deregulation of the country's financial markets. How they will cope when that finally happens next year is the question they are all now asking.

Survival is assured for some, such as Kokusai and Kosei Securities, an aggressively lean firm in Osaka. For others, a painful readjustment, if not a painful exit, is in prospect.

"Japanese securities companies have to introduce measures to increase revenues," says Yasuo Kanazaki, chairman emeritus of the Nikko Research Centre. "They will have to switch to fee income and away from commission income. That will put the emphasis on total asset volume rather than on portfolio turnover."

At the same time, other observers add, they will have to control and cut costs and expand the range of products they offer the customer. Doing all of these things together, and successfully, will be a tall order for many firms.

To be fair, some are already working on post-Big Bang strategies. Alliances are emerging between local and foreign firms to develop and sell new products, especially mutual funds and "wrap" accounts, to capture a bigger share of Japan's enormous personal savings



market. This is valued at Y1,200,000, a number that slips easily from every Japanese banker's tongue, and the vast bulk of it is in cash deposits or post office savings schemes.

As well as looking to broaden their product ranges, some, such as Kosei, are focusing on costs. Mr Kosei says his firm began cutting its cost base in 1990, when the company's profits were at a peak and the bulk stock market had yet to suffer its disastrous attack of vertigo. It also, unusually, got rid of job titles and introduced bonus remuneration for staff linked to performance.

Today, Kokusai claims a 25 per cent share of the market for sales of investment trusts managed by western investment banks such as Goldman Sachs and Morgan Stanley. Its target market is rich individuals seeking more professional management of their wealth.

It also has a niche position

in initial public offerings and bond trading, and along with Kosei and Nomura, which owns 33 per cent of Kokusai, is much less dependent on income from commission than other firms.

The result, according to a report in February by Deutsche Morgan Grenfell, is that Kokusai "is one of the few major brokers outside the Big Four with a decent earnings record." Firms of a similar size, such as New Japan,

Kankaku and Wako, have not been so fortunate.

Others are now seeking to copy Kokusai's formula.

Daiba Securities unveiled its own Big Bang strategy at the end of last year that includes reorganising management, increased investment in technology, developing a global product line including investment banking, introducing the bonus system of rewarding staff, and allowing staff over 50 to retire earlier than the statutory age of 60 if they wish.

The strategy is all based on the understanding that we will not survive intensified competition without it," says Shinichi Yamamura, Daiba managing director and board member.

Daiba, Kokusai and a handful of others are either big enough or nimble enough to survive. But Japan's large number of under-performing or loss-making securities firms could be the real losers after Big Bang.

Those most dependent on equity trading, which in large measure consists of little more than churning portfolios to earn commission, will be hardest hit.

The result, according to a report in February by Deutsche Morgan Grenfell, is that Kokusai "is one of the few major brokers outside the Big Four with a decent earnings record." Firms of a similar size, such as New Japan,

are unable to guarantee their survival independently, they may find security in the arms of Japan's commercial banks.

Big Bang will allow the banks to develop their own securities businesses, and their retail networks will give them a powerful advantage in selling to new customers.

However, executives at securities firms generally sound lukewarm in discussing the possibility of being taken over.

One growls: "We have nothing to learn from our Japanese competitors."

Instead, as outlined by Goro Tatsumi, chairman of Kosei Securities, firms need to focus more on what their clients need and develop products that can be sold.

"We should think in global terms in developing new products," he says. "Just having an investment market of Y1,200 million million is not enough in itself. We have to add value."

THE BANKS • by Gillian Tett

Rivalry to replace cosy collaboration

The competitive battle seems to be starting. Painful choices will now have to be made

A few months ago, Sanwa Bank, one of Japan's largest, took an innovative step. With Big Bang looming, it proudly announced it would offer customers a service no other Japanese bank had done - telephone banking.

What happened next took Sanwa by surprise. Sumitomo, another huge bank, promptly started telephone banking as well - precisely one day before Sanwa. "We wanted to show we could be first," says a Sumitomo executive cheerfully.

The tale might seem trivial.

But it points to a wider

and potentially momentous shift in Japan's banking world.

Until now Japan's banks have operated through cosy collaboration, not rivalry. But Big Bang promises to create a new, competitive climate. As the banks scramble to respond, the uncertainty now is whether this competition will leave the banks looking stronger than

before - or whether the attempt to make Tokyo a globally competitive financial centre will take place at the expense of the domestic banks.

Drastic change is certainly needed because, with or without Big Bang, the fact is that Japan's banking system is currently in a mess. The basic problem is that during the past five decades the government has developed the financial sector around a national goal of directing savings to manufacturers, rather than building profitable banks. Banks, for example, have maintained close links with customers through cross-shareholdings. Competition has been reduced by a so-called "convoy" system in which strong banks were expected to support the weak.

Businesses were strictly segregated. Japan's three long-term credit banks provided long-term lending; the 10 "city" banks focused on retail business; the seven trust banks offered asset management services; and a mass of regional banks serviced local clients.

This pattern worked when Japan's economy was growing rapidly. But it is now in crisis. The bursting of the 1980s bubble has left the sector weighed down with huge problem loans, currently put at some Y77,000bn. The falling stock market has slashed the value of the banks' equity portfolios, which the banks count towards their capital.

Meanwhile - and most crucially - the banks' business franchises are vanishing. Japanese companies no longer rely exclusively on the banks for funding: since 1993, companies have increased their reliance on capital markets from 29 per cent of funding to 42 per cent.

Spreads on corporate lending have slumped. And though some banks have wanted to diversify, they have been prevented by industry segregation. Most banks have been increasing, not shrinking, their loans in recent years. Consequently, David Atkinson of Goldman Sachs, calculates that even if the Japanese banks cut all costs, their ROE would be a shockingly low 15 per cent, compared with 30 per cent and 68 per cent in the US and UK.

This pattern worked when Japan's economy was growing rapidly. But it is now in crisis. The bursting of the 1980s bubble has left the sector weighed down with huge problem loans, currently put at some Y77,000bn. The falling stock market has slashed the value of the banks' equity portfolios, which the banks count towards their capital.

Meanwhile, the banks are

Can Big Bang change this? Some reforms may help. Tearing down industry barriers, for example, will allow banks to enter new businesses, such as asset management. Introducing holding companies could allow more efficient management. And irrespective of actual deregulation, the debate about Big Bang is ushering in a new willingness to think in a "convoy" system.

Meanwhile, the banks are

Spreads on corporate lending have slumped. And though some banks have wanted to diversify, they have been prevented by industry segregation. Most banks have been increasing, not shrinking, their loans in recent years. Consequently, David Atkinson of Goldman Sachs, calculates that even if the Japanese banks cut all costs, their ROE would be a shockingly low 15 per cent, compared with 30 per cent and 68 per cent in the US and UK.

This is encouraging: until recently the banks rarely talked about specialist business niches or shareholders. But it may not, in itself, solve the banking sector's woes. For if the banks are to become competitive by west-

ern standards, they must address other issues.

One is their bad loans. All are now pledging to make huge write-offs in the 1997 fiscal year that is forecast to leave the top 19 banks collectively recording Y3,800bn worth of losses in fiscal 1997.

But the banks are still proving painfully slow to actually realise the loss by selling the land they hold.

Another is their management style. This has traditionally been very hierarchical, with pay set by age and staff rotated frequently between jobs. But globally competitive banks require highly motivated specialists.

Some Japanese banks are

now reforming their personnel system along these lines but none has yet made serious job cuts. Meanwhile, many are losing good staff to western competitors who offer better pay.

But the biggest issue of all is the sheer number of banks. Margins are currently low because too many banks are chasing the same business. There are hints that this is changing: a few regional banks have recently closed or merged. Last autumn, Japan saw some

thing hitherto considered inconceivable - one of its top 20 banks, Hokkaido Takushoku, collapsed.

But reform, as so often in Japan, is painfully slow. The government now insists that no other big bank will be allowed to fail. Indeed, this month it agreed to pump some Y1,500bn into the banks - both weak and strong - to increase their capital base. Government officials argue that if capacity is taken out of the system, it should be done not through outright failures, but through mergers and the creation of holding companies instead.

This might work - over time. But time is not something the banking sector has.

If Japan can accept a wave of consolidation, then the strongest banks could flourish. If it cannot, then the country's banks will stagnate and Japan will see a half-hearted Big Bang.

Either way, Sanwa and Sumitomo's rivalry over telephone banking is one sign the competitive battle is starting. The country now has some painful choices to make.

LIFE INSURANCE COMPANIES • by Gillian Tett

Yet another challenge

The threats and opportunities offered by deregulation are only one concern

The Big Bang for Japan's insurance industry may actually have been heard a year ago, when Nissan Mutual, a life insurer, collapsed.

The Hashimoto Big Bang is just another step in a series of challenges which have faced the industry over the past decade. Foreign pressure, particularly from the US, has already led to the opening of Japan's insurance market to foreign firms, as well as starting to break down barriers between competitors in different sectors domestically.

These moves have been gradual. But the sudden collapse of Nissan Mutual, a medium-sized life company, in April last year, dramatically rocked complacency about Japan's insurance industry among consumers and in financial circles.

It also illustrated how Japanese life insurers have slipped from being international financial giants to struggling companies overburdened with bad loans and with capital bases weakened by years of paying out more in guaranteed returns to policyholders than they were making on their own investments. International ratings agencies have recently issued pessimistic reports on the life sector; several companies were given highly marginal ratings.

Nissan Mutual's downfall hit unsuspecting policyholders, who had assumed

they will cover at least 30 per cent of policyholders' funds in the event of an insured's collapse.

The funds should be up and running by December this year.

Meanwhile, deregulation has already increased opportunities for those companies willing and able to take advantage of them. Life companies are being allowed to move into the non-life sector, and vice versa, while the third sector - areas such as critical illness coverage - which has long been the home territory of the foreign insurers, is to be opened up to all comers.

Some domestic companies seem to prefer the status quo, however, and have been unwilling to move aggressively into new markets. Foreigners are not so shy. Some, such as AIG, have been active in Japan for a long time.

One the foreign companies bring with them is a more advanced approach to underwriting and policy design. Previously, Japanese insurers had a "one size fits all" approach - there was little differentiation in premiums to take account of varying risks.

Premiums also hardy varied between companies because competition was mainly on the strength and persistence of the sales force, together with the insurer's relationships with other companies. Now, deregulation is making discounting, innovative policy design and risk-weighted premiums possible, with foreign insurers leading the way.

But the threats and opportunities offered by deregulation are just one of Japanese insurance companies' current concerns. Their financial state and poor investment returns may be much more significant, at least in the short term, than any loosening of the regulations.

Not many chairman of Japanese financial companies have reason to look cheerful these days. But

Yasuo Takei, chairman of Takei, Japan's largest consumer finance group, is

currently one of them. Mr Takei's company has just achieved something that has eluded Japan's banks and brokers: three consecutive years of strong profit growth. "We expect more growth this year," he says. "Our business seems recession-proof."

Such a record is striking, given that Takei is barely known outside Japan. But it highlights a feature of Big Bang: "outsiders" may be winners in the forthcoming financial changes.

Big Bang will allow new companies, such as trading companies and consumer loans groups, more freedom to enter Japan's financial sector. And in some cases these newcomers may prove more nimble in adjusting to the traditional banks' and brokers' ways.

Takei's story is striking and shared by many of the non-bank financial companies, such as Famic, Acom, Nichiei and the Shohin Fund.

Mr Takei set up the consumer finance company in the late 1960s, after he noticed that consumers found it hard to obtain short-term loans in a country because of the rigid bureaucracy of the banks.

He cuts a very different figure from Japanese bank

ers: he speaks with a directness unusual in Japan, and sports a subtly striped suit instead of the usual dark attire.

Nevertheless, his business has grown fast: annual loan growth has exceeded 12 per cent in five of the past six years, and the company has 2.3m customers. Premiums have surged from Y88.8bn to Y121.2bn between 1985 and 1997.

INVESTMENT BANKING • by Vincent Boland

Why Tokyo's bankers are definitely not for tennis

The 'Wimbledon scenario' is just one worry associated with Japan's Big Bang.

A decade after London's financial markets were thrown open by its own Big Bang, the dominant investment banks are American. The City of London is a global financial powerhouse but many of the great names of British finance - Phillips & Drew, Rowe & Pitman, Morgan Grenfell, and Bamfords - have vanished or will soon do so, gobble up by foreigners.

Japanese investment bankers refer to this as "the Wimbledon scenario", by which they mean that Britain hosts the world's best tennis tournament, but a Briton never wins.

Not surprisingly, they say

that what happened in London could never happen in Tokyo.

Perhaps they are right. Tokyo's investment banks are more important to the Japanese economy than London's ever were to the UK's.

And Nomura, Daiwa and Nikko now have a global presence. More importantly, they have a vice-like grip on their domestic market, even if it has been sustained by heavy regulation and a fair degree of inertia.

And yet there is no escaping how worried Tokyo's financial sector is by the threats inherent in Japan's Big Bang. The country's vast personal savings market will be thrown open to competition from foreign houses. Its leading companies will be free - indeed, may be forced - to look to the likes of Goldman Sachs, Morgan Stanley and Merrill Lynch for mergers and acquisitions advice.

Japanese investment bankers refer to this as "the Wimbledon scenario", by which they mean that Britain hosts the world's best tennis tournament, but a Briton never wins.

Not surprisingly, they say

The lifting of exchange controls will mean capital is free to move abroad. And the technological prowess of western houses could give them a definite advantage.

In one sense, the cards appear to be stacked against the locals. Japan's investment banks are already free to virtually do as they please, and Big Bang will bring few opportunities to do things they cannot do already.

Foreign banks, on the other hand, can hardly hide their excitement. Deregulation will create a level playing field for everybody, and it stands to reason that those institutions that have been handicapped up to now will gain the most.

Foreign banks had 20 per cent of Tokyo stock exchange turnover in 1996. In 1997, it was 30 per cent. There is a very good chance we could go to 40 or 50 per

cent," says a western investment banker.

"Many Japanese companies are saying they don't need more than one Japanese broker and are choosing a foreign bank to act alongside. Foreign houses are the best suppliers of quality research. And there isn't the depth of trading skills on the Japanese side."

In an already crowded marketplace, competition is about to get even tougher, many observers agree. "There are some 20 integrated investment banking houses in Japan," says Yasuo Kanzaki, chairman emeritus of the Nikko Research Centre. "When the market is deregulated, I don't think more than five can survive. Houses will have to merge or be taken over. There will be rationalisation."

Some foreign investment

banks have already made strategic moves into the market ahead of full deregulation. Merrill Lynch has acquired most of the retail arm of the failed Yamaichi Securities and is to spend \$300m building a retail business to capture a slice of the personal savings market.

"I am encouraged by Merrill's move. It shows the investment banking infrastructure is being developed," Mr Kanzaki says, adding that 80 per cent of all mutual funds distributed by Nikko in the past three months were invested abroad and managed by others.

Western bankers say asset management is a huge growth area for locals and foreigners alike. Traditionally, Japanese fund managers have underperformed their foreign rivals not just because the domestic stock market is in a slump but

because the sector has been so tightly controlled. Deregulation will shake it up a great deal, offering the ill-served Japanese consumer of financial products more choice.

And because foreign-managed funds can offer higher returns, foreign asset managers say they are in a much stronger position to exploit the market.

"Most of our Japanese competitors are behind the curve," one says. "Asset management is an underdeveloped business here compared to overseas. We have a real advantage because we are equipped with modern marketing expertise and the ability to generate much higher returns than are available from Japanese asset managers."

Few foreign bankers would claim to be able to displace Nomura Securities from its position as Japan's

leading investment bank, at least in its traditional businesses of trading, acting for Japanese companies, and selling to retail customers. Instead, they are focusing on innovation - offering products that Japanese clients have not been able to use up to now.

If Japan's Big Bang means anything, it means that new products will be easier to develop and market. The definition of a security will be broadened and, in legal terms, deregulation will mark a significant shift towards permitting any innovation that meets the usual prudential considerations and is not specifically prohibited.

"Big Bang is going to enhance the scope for innovation in new products and services," one banker says. "Two areas in particular are over-the-counter equity derivatives - indeed, derivatives of all kinds - and securitisation, where a domestic market has never really developed for regulatory and tax reasons. It has started already and I think it is going to be a very big business."

Given the power and reach of firms such as Nomura, Daiwa and Nikko within their home markets - and, for example, Nomura's principal finance group in London - their staying power should not be underestimated. Nor should the lessons being learned from the collapse of Yamaichi be overlooked.

Japanese bankers agree that Yamaichi was an enormous shock to the system, concentrating minds wonderfully ahead of Big Bang. If anything, it has strengthened the resolve to avoid, at all costs, a repeat of the dreaded "Wimbledon scenario".

tools than investments.

Western groups are trying to change this perception. Commerz International Asset Management, the fund management arm of the German banking group, for example, is distributing a CD-Rom cartoon, which uses simple parables to explain unfamiliar concepts such as diversification. "We explain that portfolio investment is like a garden. You need to plant different vegetables so that you can still have a good harvest even if one goes rotten," says an official.

Getting this message across will probably take considerable time. And in the interim, most companies expect to see steady, rather than explosive growth. But in a market the size of Japan's, simply a 10 per cent annual growth in the sector could generate some lucrative business for both Japanese and western groups.

"We are ready to lose money for 10 years," says Felix Pang, general manager of Fidelity. "But I think there is the biggest opportunity for 30 years for foreign financial institutions to reach this market. It's a very exciting opportunity if you look at the long term."

MUTUAL FUNDS • by Gillian Tett in Tokyo

Spreading a new gospel

The sector could offer some of the most enticing prospects for foreign companies

In the downtown Shinjuku area of Tokyo this spring, Michiko Masuoka is spreading a new financial gospel.

Several months ago, Fidelity, the US mutual fund group, took advantage of a reform in the Big Bang deregulation to set up a marketing point in a branch of Sanwa Bank - one of the first ever seen in a Japanese bank.

Now Ms Masuoka is trying, after a few weeks of training, to explain a concept that most Japanese have hitherto been unfamiliar with - using mutual funds for long-term savings plans.

"It's a different way of thinking for us in Japan," Ms Masuoka says, sitting in a smart new booth, where she is currently meeting about a dozen Japanese customers each day, mostly men in their thirties and forties. "But I think people are interested," she adds.

The Y\$600bn question, though, is just how interested? As Big Bang gets under way, the mutual fund sector could potentially offer some of the most enticing prospects for foreign companies. For although mutual

funds have been strikingly underdeveloped so far in Japan, hopes are rising that the country could see rapid growth, like that in the US, in the coming years.

But retail financial services is also a business area deeply embedded in Japanese culture. Consequently, the crucial issue now is just how quickly western companies will be able to persuade the Japanese public to adopt "foreign" concepts such as US-style mutual funds?

There is certainly a strong incentive for western companies to try. Japan's consumers are famously estimated to have some Y\$1,200,000bn worth of savings. But most of this money is placed with Japanese banks, brokers, life insurance companies and the national post office, which generally yield very low returns. Mutual funds (known as investment trusts in Japan) account for a mere 3 per cent of all savings. This is a quarter of the US level - and is actually lower than the proportion in Japan in the late 1980s.

However, there is now growing pressure for change. The media coverage of Big Bang has left many Japanese consumers more aware than ever before about investment alternatives and Big Bang itself will usher in reforms designed to promote the mutual fund sector.

Later this year, for example, banks will be permitted

to sell mutual funds for the first time. Insurance companies will probably follow a year later. As an interim step, banks were allowed to rent space to investment companies last year - a change which permitted Fidelity to establish its booth in Sanwa.

Akira Ariyoshi, director of the Ministry of Finance research office says: "What we are doing is providing alternatives to bank and life insurance products which have low fixed rates of interest."

Japanese companies are scrambling to respond. But mutual funds are one area where foreign companies have distinct advantages, because western companies already have a long experience in the sector. And the poor performance of Japanese instruments in recent years is leading many consumers to look to non-Japan investments - an area where western groups are particularly strong. In the past year alone, for example, monthly sales of non-Japan money market funds have risen six-fold to Y\$30bn of which the vast majority are managed by western groups.

This logic has already left many western companies expanding their operations. These include a host of well known US and European mutual fund groups and investment banks, such as Merrill Lynch, Mercury

Asset Management, Schroders, Putnam, Invesco and Smith Barney. "We think the opportunities here are huge," says Steven Speigel, Putnam's senior managing director.

It also includes some surprising operators; although Goldman Sachs usually considers itself an investment bank it now has one of the fastest growing mutual fund businesses of any foreign group in Japan.

But turning this excitement into actual sales will not be simple because although western companies have many advantages over their Japanese rivals, they also face two distinct problems.

One is distribution. Until now, western companies have been forced to sell products through domestic brokers. But these have often charged high fees and sometimes been reluctant to sell competing foreign products. Allowing banks and life assurance assurance to enter the mutual fund market should dramatically expand the distribution channels, but banks and life assurance companies have limited experience of actually selling mutual funds.

Some western groups are seeking alternatives. Merrill Lynch, for example, recently became the first non-Japanese group to develop its own brokerage outlets, by buying 30 outlets of the



Fidelity Investments sales counter at Sanwa Bank, Shinjuku, Tokyo: a fresh concept in Japan

failed Yamaichi broker. Fidelity is hoping to tap into telephone, or even internet sales.

But most other western

groups believe that developing independent distribution channels is not feasible. And although some, such as Smith Barney or Putnam, are establishing partnerships

and joint ventures with Japanese as an alternative tactic, these alliances create huge management challenges.

However, the second problem is marketing. Mutual funds are currently a concept that many Japanese regard with unease. This is partly because many house-

holds lost money after the collapse of the 1980s stock market bubble. But Japanese brokers also traditionally tended to encourage consumers to "churn" mutual funds as soon as they yielded profits, rather than hold them for a long time.

As a result, they are regarded more like gambling

CORPORATE PENSION FUNDS • by Gillian Tett

Reforms get under way

Western groups are making some important inroads in Japan's pension industry

Takahiko Okada, president of the pension fund at Fujitsu, Japan's largest computer manufacturer, chooses his words with care.

"Our company has taken a clear decision to take our pension money away from asset managers which do not offer high returns," he says solemnly. "And we will give it to companies which do."

Coming from a western company, the comment might seem commonplace. In Japan, though, it points to a striking shift now under way.

For as Big Bang looms a growing number of companies are now trying to introduce changes in the way they run their pensions. And although western groups have traditionally been almost entirely excluded from the sector, the pension industry is now becoming one area where western groups are making some of the most striking inroads in Japan's financial world.

Fujitsu is a case in point. It used to only use Japanese companies to manage its pension money. But now, foreign groups such as Schroders, Mercury Asset Management, JP Morgan and Credit Suisse manage 20 per cent of Fujitsu's Y\$500bn fund. "We think western groups can sometimes be more independent," Mr Okada says.

The tale is echoed across the sector. Last March, foreign groups had a 5.9 per cent share of the pension market, according to Hiroshi Nakagawa, managing director of Intersec, a pension consultant. By September it had risen to 7.6 per cent. And foreign groups are now winning 35 per cent of all

new pension money being given to trust banks and investment advisers.

George Curuby, a consultant, forecasts from his analysis that the assets managed by foreigners could double to Y\$70bn in the next seven years. "It is clear that Japan is at the beginning stage of a gold rush for the world's investment management community," he says.

At first glance this seems a compelling sign that Big Bang is ushering in real change. But the tale - like so much in Big Bang - is complex. For although the shift in the pension market is often described as part of "Big Bang", it is not being driven by forthcoming regulatory reforms alone. Instead, it owes more to regulatory changes that have already occurred, and longer term pressures in the pension industry.

Until recently in Japan, corporate pension funds were managed by two groups: life assurance companies and trust banks. These were generally selected not according to performance, but traditional business ties, centred around the *keiretsu* business families.

But this pattern has come under growing strain. The ageing population has left many corporate pension funds seriously underfunded. And the rates of return offered by Japanese life assurance companies and trust banks have been falling.

This is partly because Japanese investment instruments have been performing badly in recent years. But many trust banks and life assurance groups have also been using relatively unsophisticated fund management techniques. They are also handicapped by their traditional business ties. Life assurance groups, for example, are often reluctant to sell shares in "related" com-

panies, irrespective of how badly they perform.

Given this, some companies have been looking for alternative fund managers.

But until recently they were prevented from making too radical a switch because of a myriad regulations, such as the so-called "5-3-2" rule. This stipulated that more than 50 per cent of pension funds had to be invested in principal-secured safe assets, less than 30 per cent in securities, less than 30 per cent in foreign assets and 20 per cent in real estate.

But many of these regulations have been recently lifted. In 1996, for example, the government relaxed the 5-3-2 rule. Before this, it permitted companies to place some money with "investment advisers" (a third type of fund manager which generally offers a more specialist mandate than the life insurance or trust bank groups.)

Last autumn it announced that IAs could manage "qualified" pension funds for the first time. Next year, IAs will be allowed to manage accounts in a single block, which will reduce their costs. And although Japanese companies cannot place more than 50 per cent of their money with IAs at present, this rule is also likely to be lifted soon.

These changes have meant that some Japanese companies are now shifting their money to better performing fund managers - and, above all, to the more specialist mandates that IAs can offer.

This has benefited some Japanese companies, such as Nomura and Industrial Bank of Japan, who are the largest IAs. But it has also ushered in a business surge for foreign groups, who now account for 33 per cent of the IA sector. One reason is that many Japanese companies now want to increase their overseas portfolios, and consider that foreign groups

have better expertise than Japanese in this. But some companies also want to employ the specialist, research-based service which western groups offer - even for Japanese investments.

Fujitsu, for example, uses Schroders, the UK fund manager, to manage part of its Japanese equities. And Sony, the electronics group, also uses some non-Japanese companies to manage Japanese funds, after it decided last year that it wanted to move to a more active style of management. Indeed, foreign companies now manage half of its pension money, after Sony recently withdrew its funds from life insurance groups.

Masakazu Arikawa, general manager of Sony's finance division says: "Even though some life insurance companies have good returns they didn't meet our requirements."

Whether the rise in the western market share can continue at this pace is unclear. If overseas markets experience a slump, the excitement about non-Japanese investments could ease. And cultural obstacles to using western firms still remain in spite of the bold stance taken by Sony and Fujitsu, most companies are still reluctant to cut *keiretsu* ties. Furthermore, some Japanese companies are also scrambling to compete better with western groups.

But catching up with western techniques will not be easy for many Japanese companies. And in the meantime, Fujitsu itself sees little sign that the trend to use foreign groups will change. "I think one third of the Japanese asset managers have a chance of reaching the level (we want)," says Mr Okada. "But unfortunately two thirds of the Japanese companies do not."

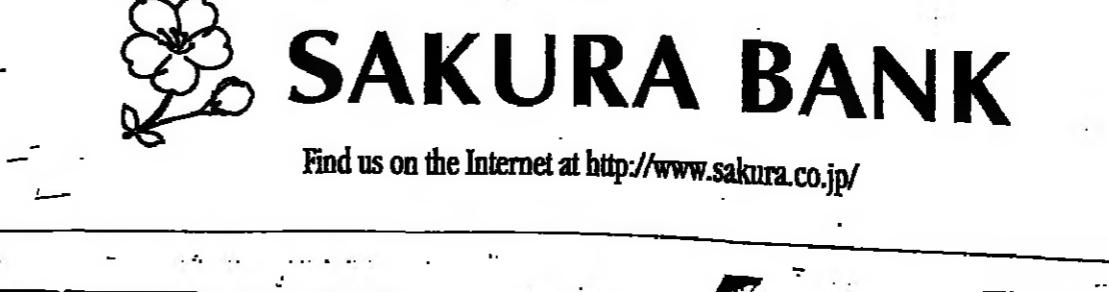
*Japan's Pension Market to 2005, ISI Publications (552) 2877 3417, £299.

Sakura Bank was formed through a merger of the Mitsui and Taiyo Kobe banks. Today, it is like a thriving sakura, or Japanese cherry tree, with deep roots in its native soil and branches reaching out in every direction to create a network of more than 100 offices in 30 countries.

- In Europe and the Middle East, we serve a growing clientele in nine countries from the U.K. to Turkey.
- In the Americas, we were the first Japanese bank to offer investment banking services. Our strong U.S. presence is buttressed by offices in Canada, Mexico, Brazil and other markets.
- And we are one of the world's best-positioned banks to support international investors in Asia, including China and Vietnam.

SAKURA BANK

Find us on the Internet at <http://www.sakura.co.jp/>



6 JAPAN'S FINANCIAL REVOLUTION

REGULATION • by Gillian Tett

Investors need to see clear laws, corporate accounts and bank checks - they can believe in

This summer, 300 bureaucrats at Japan's mighty Ministry of Finance will experience a subtle job change. Instead of working in the MoF's Tokyo headquarters, they will move into another building next door to staff a newly created "Financial Supervision Agency".

The move is intended to show that Japan is reforming its system of financial supervision as part of Big Bang. The crucial question now is whether it will work.

For although Big Bang is billed as a project about deregulation, its success now partly depends instead on regulation. Above all, with

out rapid reforms to the regulatory system, there is a real risk that the entire Big Bang project could fail.

The problem is acute because the system used to run Japan's financial sector is strikingly different from that in modern Anglo-Saxon markets.

Indeed, just how different has become clear to any onlooker in a series of corruption scandals. First, last summer, it emerged that the country's biggest four brokers had been quietly paying *sokaiya* - corporate racketeers.

Then it transpired that several large banks had been providing lavish entertainment - including dining and golf, and trips to sex bars - to MoF officials who were supposed to be regulating them. It also emerged that several banks and brokers had also been using similar lavish entertainment

to win eurobond contracts.

And this month another scandal tumbled out: an official at the Bank of Japan was arrested for allegedly receiving favours in the form of lavish dining and dining from banks in exchange for market-sensitive information.

To western eyes, this makes sordid reading. But the crucial issue is that these are not isolated incidents of individual crime.

Such practices have been endemic in Japan for decades - and reflect a pattern of corporate behaviour that is profoundly different from that in countries such as the US.

On paper, for example, Japan has all the trappings of a modern capitalist system. There are accountants, shareholders, lawyers and laws. There is also a system of government supervision which produces regular

reports on the banks and brokers.

But these institutions have often played a different role from those in Anglo-Saxon countries. Accountants, for example, have been deeply entwined with the companies they monitored. Independent shareholders had little power. Law suits were rarely used to settle business disputes.

Meanwhile, the government has appeared more akin to a "puppet-master" pulling strings, than a neutral "umpire" overseeing the financial game.

The key reason is that Japan used a system known as "administrative guidance" to decide what companies could do. In this, decisions were taken not according to clearly defined laws, but case-by-case informal consultation.

Many Japanese have argued that the system

worked well enough in the past. But it is fundamentally at odds with the avowed Big Bang goal to create "fair, free and global" financial markets. "Administrative guidance" is apt to stifle financial innovation; it blatantly discriminates against companies that do not have close personal links with bureaucrats.

But the most pernicious problem is that the system does not build the market confidence that a globally competitive market requires. What international investors need to see, in other words, are clear laws, corporate accounts and bank inspections that they can believe in.

Can Japan produce this? The government insists it wants to try, and has included some reforms within the Big Bang timetable. This summer, for example, the FSA will

assume ultimate responsibility for regulating the banks and brokers. This step will effectively remove these powers from the MoF (just as supervision has been separated from the Treasury in the US.)

This spring, a new system of "prompt corrective action" will be introduced for internationally operating banks, which will require the banks to adhere to tighter capital adequacy criteria.

The FSA will have the right to order a bank to suspend its business if it fails to meet the standards.

A similar system will be introduced for brokers: the FSA will be able to close down brokers which do not meet tightened capital adequacy standards of 100 per cent.

These steps could, in theory, go some way to improving the situation. But they do not solve the entire problem.

Another problem is that Japan has a severe shortage of lawyers and accountants who can impose new laws or deliver independent, credible accounts. At present only about 500 lawyers actually graduate each year. Japan's law society has recently agreed to double this figure over the next few years but it has blocked suggestions that foreign companies should be allowed to set up competing businesses in Japan.

The biggest problem remains the most intangible: the cultural attitude. Unless

the MoF can master a new role - as "neutral umpire" rather than "puppet master" - it will never be able to create a climate of open, fair competition. Similarly, unless Japanese companies themselves can accept that they need to be transparent in front of shareholders, it will be difficult to win investor confidence, irrespective of the new FSA.

The eruption of the recent corporate scandals may be one sign that attitudes are changing. But the scale of reform now needed is huge. "The success of Big Bang will be important in the creation of new laws... but a transparent and accountable regulatory process," argues Peter del Vecho, a lawyer with White and Case, the US law group. "Arbitrary and non-transparent administration is capable of completely exacerbating the benefits of Big Bang."

OSAKA • by Vincent Boland

Stock exchange has taken steps to protect its position

Developments such as J-Net should allow the OSE to hone its competitive status

Nowhere are Tokyo's preparations for Big Bang being watched more closely than in Osaka, Japan's other financial centre and one that is very keen to maintain its own position as the country's leading derivatives trading centre after deregulation takes root.

At the Osaka Stock Exchange (OSE), and among the city's large number of securities firms, there is a general feeling that they were the first to accept that something like Big Bang would have to happen one day.

Market participants say they have a lot to gain from liberalisation, especially because it will greatly expand the market for new products, an area where Osaka already claims to be

more competitive than Tokyo.

"The bigger the bang, the better," says Taku Noguchi, senior executive director of the Osaka Securities Exchange. "The OSE has in the past worked for widespread changes in the way the markets are run, and will continue to do so."

Self-interest is the motivation. According to Goro Tatsumi, chairman of Kosei Securities and president of the Osaka securities industry federation, the OSE handles 50 per cent of all Japanese securities transactions until the second world war, but then its share began to decline rapidly.

Today, the exchange has about one-fifth of the business, although it dominates in futures and derivatives trading.

Mr Tatsumi says the aim now should be to capitalise on the city's strengths in futures trading, which he claims was invented there 250 years ago with the development of a market for rice.

Derivatives in the next couple of months in the financial, consumer and high-tech sectors.

But the rise of other exchanges in the Asia-Pacific region in the past few years, and the bursting of Japan's stock market bubble in the early 1990s, have taken their toll. OSE trading volume for the Nikkei 225 futures contract, the market's most liquid and important instrument, is erratic. It reached Y137,000bn in 1997, but in 1991, for example, trading volume in the contract reached Y36,700bn.

At the same time, trading volume in the Nikkei 225 futures contract has been rising on Simeix, although it remains well below the OSE.

Nevertheless, competition between these two exchanges is almost certain to increase after Big Bang, bankers and securities market professionals agree.

The OSE has already taken steps to protect and enhance its position, although Mr Noguchi says that what really matters in Big Bang is not the number or range of new products that can be developed in a deregulated environment but the kind of trading systems that are put in place to trade them.

Change is already evident at the OSE, with its banks of empty trading points and sparse floor trading. The advent of electronic trading means the cavernous OSE chamber, dating from the 1930s, is rapidly becoming redundant. Equity and equity options trading were computerised at the end of last year. Plans are now afoot to introduce new index

derivatives in the next couple of months in the financial, consumer and high-tech sectors.

Derivatives in the next couple of months in the financial, consumer and high-tech sectors.

But the rise of other exchanges in the Asia-Pacific region in the past few years, and the bursting of Japan's stock market bubble in the early 1990s, have taken their toll. OSE trading volume for the Nikkei 225 futures contract, the market's most liquid and important instrument, is erratic. It reached Y137,000bn in 1997, but in 1991, for example, trading volume in the contract reached Y36,700bn.

At the same time, trading volume in the Nikkei 225 futures contract has been rising on Simeix, although it remains well below the OSE.

Nevertheless, competition between these two exchanges is almost certain to increase after Big Bang, bankers and securities market professionals agree.

To counter this threat, the OSE is courting exchanges abroad for two-way co-operation. Alliances with the Chicago Board Options Exchange and the Chicago Board of Trade and with the London International Financial Futures and Options Exchange "will be realised in some form this year," Mr Noguchi says, though he declines to elaborate.

More important, from its point of view, is the completion of its new J-Net electronic trading network system now under development, which will be used to negotiate the details of a contract for cross-trading on the

OSE's computer trading system. Mr Noguchi says the exchange hopes to start test-trading the J-Net in September, while the system is due to be fully implemented and working by the end of the year.

For Osaka-based financiers, the hope is that J-Net will enable the OSE to secure its competitive position with Tokyo in futures and derivatives trading and win more cash business.

Tokyo currently handles four times as many cash transactions, Mr Noguchi says, adding: "J-Net should reduce this by half, but it will take several years to achieve that."

Developments such as

J-Net should also allow the OSE to hone its competitive position against challenges from the nimble foreign exchanges snapping at Tokyo's heels. The exchange, in addition, hopes the technological advances will enable it to increase its foreign membership. Currently it has 27 such members, including almost all the big names in the securities business.

Mr Noguchi insists, however, that the Osaka-Tokyo rivalry should not cloud the larger issue of where Big Bang will leave the country on the global financial map. "To outsiders, the OSE and the TSE appear to be competing, and there is competition between us. The more important issue is not which exchange will win, but how Japan will be positioned in global financial markets," he says.

The development of the country's financial markets has created deficiencies but also has many advantages.

"There are deficiencies in our financial markets, but both government and the industry are now aware of them," he says. "For the Japanese financial industry, its future depends on how much of the legacy will be discarded while keeping the good bits. Change offers a chance for everybody, but it will be a tragedy for those who can't keep up."

Deregulation of Japan's financial markets!

Plan your new strategies with two management reports from FT Finance

Japan - Deregulation & the Future of the Financial Markets is a management report published by FT Finance. The report provides highly informed, detailed and independent analysis of the current and future state of Japan's banking and finance markets. It includes exclusive interviews with key figures in the Ministry of Finance and major Japanese financial organisations. The report will give you insights into where an institution's skills can best be deployed, reveal the potentially lucrative areas for acquisitions and pinpoint areas where you can exploit your competitive advantage.

£450/US\$765 Published May 1997 Anthony Rowley

Japanese Insurance: The Impact of Deregulation

What will the on-going deregulation of the Japanese insurance industry mean for your company?

Will it lead to lower premiums and improved products?

What are the long term implications?

This is the only report to cover the region's life, non-life insurance and reinsurance markets in a single volume. With its comprehensive analysis and detailed case studies on key market players, this is a short cut to accumulating information on this market not known for its transparency. It provides vital business intelligence for all insurers and reinsurers looking to enter or expand their presence in this lucrative market.

£595/US\$930 Published March 1998 Claire Preston

Order both reports and save 10%

Name	Position		
Company	Address		
Country	Postcode		
Code	Title	Qty	Price
JBB97	Japan - Deregulation & Future of Financial Markets		£450/US\$765
JIJ98	Japanese Insurance: The Impact of Deregulation		£595/US\$930
Both titles - 10% discount			£940.50/US\$1525.50

Please debit my credit card Mastercard Amex Visa Total

Card No: Expiry date

Signature: Date: 22178A

I enclose a cheque made payable to FT Finance for the sum of £/US\$.....

Please send me the report(s) together with an invoice (EU & EFTA registered companies only). EU Companies (except must supply VAT/BTW/MOMS/MVST/IVA/FFA number to avoid extra charges. VAT Registration No:.....

Return to: FT Finance, Maple House, 149 Tottenham Court Road, London, W1P 9LL, UK
Tel: +44 (0) 171 896 2294
Fax: +44 (0) 171 896 2274

Or in the Asia Pacific Region: FT Finance Asia Pacific, 159 Telok Ayer Street, Singapore 06864
Tel: + (65) 422 0115
Fax: + (65) 323 5262

FT Business Ltd, Reg Office: Maple House, 149 Tottenham Court Road, London, W1P 9LL, Registered No: 222881 (England & Wales) VAT Reg No: GB02/0537121. The information you provide will be held by us to keep you informed of FT products and may be used by other selected quality companies for mailing purposes.

Political pressures could cool the innovative ardour of western white knights

Take a glance at Tokyo's financial world this spring, and it might appear that a giant dating game is under way. For over the past year a new wave of corporate flirting has emerged between Japanese and western firms.

There have been some fully fledged marriages: this summer, for example, Swiss Bank Corporation is to set up three joint ventures with the Long Term Credit Bank of Japan, the first such concluded by a western bank in Japan.

There have been many other, much more loose alliances: Putnam, the US mutual fund, to cite another example, has recently agreed to collaborate with Nippon Life, the largest Japanese life insurance group, in asset management.

And though such alliances are not entirely new, the trend highlights two key points about Big Bang.

One is that the financial changes are now attracting unprecedented interest from western groups. The second is that westerners wanting to enter Japan's markets now face some difficult strategic decisions.

The problem is as follows: western companies have financial skills which Japanese markets lack. Meanwhile, Japanese companies have well-established corporate and retail distribution networks which the western groups do not possess.

Some western companies have decided to solve this by renting distribution space, or by building it themselves. Citibank, the US group, for

example, has built its own retail banking business; JP Morgan is taking an independent path in investment banking. But this is expensive and time-consuming: it has taken Citibank about a decade to develop its own network, for example.

One short cut might be for a western group to buy a Japanese company. This, after all, was precisely what occurred after the 1985 UK Big Bang, when foreigners acquired many British merchant banks. And last year it was widely muttered in Tokyo that this might be about to occur in Japan as well.

But this seems unlikely. A few purchases have occurred: GE Capital, the US financial services company, for example, has bought two small consumer finance groups. But these remain exceptions.

This is partly because Japan has limited tradition of mergers and acquisitions. But it is also because potential purchase candidates are limited.

Successful financial groups are extremely expensive. But the poor performance and cheaper companies are usually weighed down by bad loans. Judging the scale of liabilities is difficult, because Japanese accounting practices are so opaque. And even if a purchase can be agreed, a further problem is that Japan's rigid labour laws make it costly to cut staff.

So where do the westerners leave? Some have recently produced some innovative solutions. Merrill Lynch, the US investment bank, for example, has wanted to develop a brokerage network for years. However, it has been reluctant to buy an entire Japanese company or start from scratch.

Another option is a more equal partnership or alliance. SBC's alliance with LTCB, for example, involves 50-50 ownership, although it will be staffed mostly by the western side (partly because

SBC is itself currently merging with Union Bank of Switzerland). And there are many loose alliances: Nikko Securities and Smith Barney are jointly developing "wrap accounts"; Bankers Trust, the US group, is working with Nippon Credit Bank in securitisation; Goldman Sachs is collaborating with Yasuda Trust bank in the property business.

But alliances also carry problems. Managing a joint venture - or even a loose alliance - is difficult in Japan because of cross-cultural differences. And Big Bang has created an added problem: some Japanese businessmen suspect that the western groups only want alliances now to "pinch" good clients ahead of reform; westerners suspect the Japanese in turn are now trying to "pinch" western technology and skills.

Those actually involved in joint ventures insist they will work. Steven Spiegel, senior managing director of Putnam, says: "The dangers have entered our mind, but remain manageable. We are very happy about how the partnership (with Nippon Life) is working."

Or as Katsuobu Onogi, president of LTCB, said recently about his deal with SBC: "Working together means we are stronger... We complement each other."

And if these alliances do develop smoothly, they could indeed offer a formidable platform with which to cope with financial reform. But in the short term, there will be some intriguing cultural and management challenges.

Westerners wanting to gain a strong presence in the Japanese market, in other words, are unlikely to find any easy short cuts.

Political pressures could cool the innovative ardour of western white knights